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FINANCIAL TIMES

Fourth pillar Liffe prepares for euro battle



Renault What has gone wrong?

THURSDAY MARCH 21 1996



Policing the Net

Censorship in cyberspace Technology, Page 8

Today's surveys Danish banking

Brussels

suspects

ABB is

one leader

of 'cartel'

By William Lewis in London and

Investigators at the European Commission suspect ABB, the Swedish-Swiss engineering multi-

national, to be one leader of an

alleged Europe-wide price-fixing and market-rigging cartel. ABB, voted Europe's most

respected company for the past

two years by top European execu-

tives, is suspected to be a promi-nent member of an alleged cartel

operating in the \$1bn European market for district heating.

District heating is becoming

increasingly popular in continental Europe as a method of oroviding communal heating in offices and flats.

Commission investigators

believe ABB may bave been

involved with five other compa-

nies in fixing prices and dividing up market share in several Euro-

pean markets including Ger-

many, the Netherlands, Austria,

Sweden and Denmark.
A Financial Times investiga-

tion has uncovered a number of

attempts by the suspected cartel

Hugh Carnegy in Stockholm

Separate Sections

UK telecoms

US regulators take fizz from brewer's Internet share offer

World Business Newspaper

Spring Street, a young, Manhattan-based brewing company, voluntarily suspended trading in its shares yesterday after the Securities and Exchange Commission requested that trading be halted pend-ing further review. The company launched its electronic trading system two weeks after completing the first ever public offering over the Internet, in which it raised \$1.6m from 3.500 investors. Page 12

Deutsche Telekom, Europe's largest telecoms operator, launched an unprecedented publicity campaign aimed at winning over millions of German shareholders, but the move came amid signs that company morale had fallen to new depths. Page 14

Profits surge fivefold at SCA: SCA, Europe's leading pulp and paper group, rounded off a record year for Swedish forestry by reporting a fivefold surge in 1995 profits from SKr1.06bn to SKr5.73bn (\$855m). Page 13; Lex. Page 12

Aérospatiale, the French partner in the Airbus consortium, welcomed the German government's call for Airbus to incorporate itself into a regular company this summer and to launch the 550-seat A3XX airliner as a challenge to Boeing. Page 2

Santer calls leaders to account: Jacques Santer, the European Commission president, said it was time EU leaders made good on spending com-mitments, and took the nousual step of presenting a list for public consumption at a Brussels news conference. Page 2

Juppé acts on end to call-up: Prime minister Alain Juppé called on the French parliament to back the government's "historic" decision to phase out a century of military conscription and create a slimmed-down, fully professional armed force by

Germany stands by 'alliance for Jobs': German economics minister Gunter Recrodt reaffirmed support for the trade union inspired "alliance for jobs" after a leading employers' representative declared that the concept as first developed by the powerful IG Metall union was "dead". Page 2

SmithKline Beecham and Coca-Cola are arguing over what players will drink at this Sunday's Coca-Cola Cup final in the UK. SmithKline Beecham, owner of Lucozade Sport, says it has the exclusive rights as official drinks supplier to the Premier League and to Sunday's two teams, Aston Villa and Leeds United, but Coca-Cola is adamant that Coke will be the only beverage on show. New TV deal on soccer in Italy, Page 2; Railway's decision sparks anger, Page 7

Lehman Brothers, the investment bank, . . reported first-quarter results which showed net income of \$104m, an increase from \$45m in the same period a year ago and from \$80m in the previous quarter to end November. Page 16

General Cable buy behind Wassall rise: Wassall, the UK-based conglomerate, demonstrated the success of its General Cable acquisition 18 months ago, by unveiling a 32 per cent increase in annual profits to £56.Im (\$84m) before tax and

Cars help boost retail sales in US: The US commerce department said American consumers returned to car showrooms last month, boosting motor sales by 2 per cent and helping lift overall retail sales by 0.8 per cent. Page 6

Seat cuts loss: Seat, the Spanish subsidiary of Volkswagen which recently received a controversial injection of state aid, said it was on course to break even next year after reducing losses by 62 per cent to Ptall.29bn (\$90.9m) in 1995. Page 14

Winnie Mandela loses claim: Winnie Mandela lost her claim to half the estate of her former bus-band, South African president Nelson Mandela, because she failed to turn up or send representation to the court hearing in Johannesburg. Later she threatened to contest the divorce at a higher court after Mr Mandela offered her an out-of-court settle-

Fears grow over US computer sales: Shares in US personal computer manufacturers were battered as Digital Equipment warned of a slowdown in North American PC sales in the current quarter, which would affect its earnings overall. Digital shares dropped 16 per cent by \$10% to \$56%. Page 13

Names' leader protests at US lawsuits: digal action being pursued by US state securities regulators on behalf of lossmaking Lloyd's of London Names sparked an angry reaction from a leading Names' representative in the UK who said his members were "horrified" at the possible conse-quences of the cases brought against Lloyd's in a number of states. Page 7

New York: Comes

STOCK MARKET INDICES B GOLD

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Pressure on British beef exports expected after 'mad cow' disease findings

Evidence links BSE to humans

By Clive Cookson and Deborah Hargreaves in London and Caroline Southey in Brussels

The UK government yesterday published the first official evidence of a probable link between BSE or mad cow disease and its buman equivalent, Creutzfeldt-

Jakoh disease.

At the same time, the health and agriculture ministers took emergency action to reassure consumers about the safety of British beef and to undertake new research into BSE and CJD. However the meat trade forecast a huge drop in beef consumption.

Brazil to

bail out

leading

bank after

record loss

By Angus Foster in São Paulo

Brazil's government yesterday

announced an R\$8hn (US\$8.2hn)

bail-out of Banco do Brasil, Latin

America's biggest bank, after it announced losses of R\$4.25bn

last year, the higgest in the

Banco do Brasil, which is 51 per cent controlled by the gov-

ernment, blamed the losses on bad debt provisions and adverse

The bank announced a complete overhaul of its credit poli-cies as well as investments in

automation to compete against

its more agile, private sector

The bank's losses cast more doubt on the resilience of Bra-

zil's banks, while the provision

of assistance will further strain

the government's budget deficit.

Brazil's government will pro-vide R\$5.1bn of the capital injec-

tion, in a new share issue sched-

will also guarantee the remain

der of the money if private

shareholders do not want to sub-

Mr Pedro Parente, a finance

ministry official, said the injec-

tion was needed to stop the bank

recording negative net assets

problems mounted. "These mea-

sures are extremely important

and represent the government's

decision to ensure that Banco do

Brasil can continue to act with the force it always has," be said.

Brazil's banking system has been in trouble since 1994 when

the introduction of new currency

brought inflation down from

more than 40 per cent a month

to less than 2 per cent a mouth

so far this year. Banks relied on the buge inter-

est rate spreads generated by

high inflation to make profits, and several bave been unable to

react quickly to the new, low-m-

flation environment. Several

have been hit by liquidity crises and two other state owned banks

had to be bailed out by the gov-

Banco do Brasil's plight is

even more complex because of its political role. In the past, it was used to finance lossmaking state

companies and agriculture. Bad

debts to these sectors were blamed for the bank's credit

problems. The bank said it made provi-

sion for bad debts of R\$3.78bn last year and recorded currency losses of R1.33bn because of the

Personnel costs were inflated

by a voluntary redundancy pro-

appreciation of the Real.

scribe.

this year:

country's corporate bistory.

currency swings.

In Brussels the European Commission said that it would review controls on the sale of beef if the new evidence suggested the European Union's present regime, designed to prevent the sale of infected meat, did not protect consumers.

But Brussels is likely face strong pressure from other mem-ber states, notably Germany, to tighten controls on British beef exports. EU veterinary experts are expected to discuss the UK's evidence at a scheduled meeting

The CID Surveillance Unit in

new strain of the fatal brain dis-ease in 10 recent CJD cases in exposure to BSE before the intro-mittee - the UK government's teenagers and young adults under the age of 42. The scien-tists said they might have been infected by eating beef during the first phase of the BSE epidemic between 1986 and 1989, when the

UK banned the sale of brains and other potentially infectious offal. There remains no scientific proof that BSE can be transmitted to man by beef," Mr Stephen Dorrell, UK health secretary, told the House of Commons, "but the [scientific advisory] committee have concluded that the most Edinburgh said it had found n likely explanation at present is

duction of the specified bovine offal ban in 1989."

Mr Douglas Hogg, agriculture minister, announced two new measures yesterday to tighten controls on BSE. All beef from animals aged over 30 months must be deboned before sale. And the use of all meat and bonemeal in pig and poultry feed is banned: it was banned for use in cattle

and sheep feed in 1939. With these new precautions in effect, "the risk from eating beef is now likely to be extremely small", said the Spongiform

main group of independent scien-tific and medical advisers on BSE

Professor John Pattison, chair-man of the advisory committee, said there was too little evidence to make any predictions about the number of people, if any, who would eatch CJD in future. The European Commission is

step of banning UK exports with-Continued on Page 12

unlikely to consider the single

Evidence grows, Page 7 Editorial Comment, Page 11



Russian and US oil groups discuss Net assets have collapsed from R\$9.42bu in 1993 to R\$3.47bu at the end of last year as the bank's

By Robert Corzine and John Thomhill in Moscow

Lukeil, Russia's biggest privatised oil concern, has begun negotiations with Arco, the Los Angeles-based US oil group, to forge a broad strategic alliance to undertake big international development projects.

A Lukeil-Arco alliance would be the first strategic link to bring together an asset-rich Russian company and a financially strong western partner and could become the model for further international partnerships.

Mr Vagit Alekperov, president of Lukoil, said yesterday the com-pany had reserves equalling those of the Angio-Dutch Shell group, the western world's biggest energy company, but lacked the financial means to carry out plans to expand outside Russia. Lukoil, which is Russia's most highly valued company, has been unable to raise substantial capital on the country's poorly devel-

oped capital markets. But it plans to raise more than \$100m through an international convertible issue on March 29 and has also begun preliminary work on a possible Eurobond issue. Despite these plans, Mr Alekperov said Lukoil would need western oil companies to help finance its most ambitious projects in the

per cent of Lukoil's shares via a convertible bond issue for \$250m. A more formal strategic alliance with Lakoil would help it overcome its poor record of replacing its reserves.

Earlier this year, Arco announced a \$2bn investment in the Algerian oil industry, but it still has large cash reserves to fund further international expan-

Arco's approach in dealing with Russian companies con-trasts with that of most western oil companies which are notably more cautious in the run-up to presidential elections in June. Lukoil, which has been the

most aggressive and progressive Russian oil company to have emerged from the wreckage of the Soviet planned economy, has strongly allied itself with President Boris Yeltsin. But Mr Alekperov said he was certain Lukoil would survive as

an independent entity even if the Communists won the elections. "I am confident that our organisation has demonstrated its viability. We have stabilised oil production and have earned the government hard currency resources," he said.

He added: "They cannot replace us with a new centralised ministry of energy. We have too many shareholders receiving div-

The first co-operative project between Arco and Lukoil may be a large investment to exploit the vast oil reserves under the Cas-



conducts training exercises in the South China Sea some 200

governments in Beijing and Washington has been fuelled by the

intended to intimidate Taiwanese voters ahead of presidential

largest build-up of US forces in the area since the Vietnam war. The

US navy has been deployed to monitor Chinese military menoeuvres

nautical miles south-east of Taiwan. Tension between the

- referred to by its members as the circle" - to neutralise the threat posed by Powerpipe, a Swedish district beating company which operates outside of the "circle" and bas been taking business away from cartel members. Commission investigators have carried out raids at the suspected companies and "was able to impound a considerable number of written documents", according to letter written by Commission investigators and passed to the Financial Times.

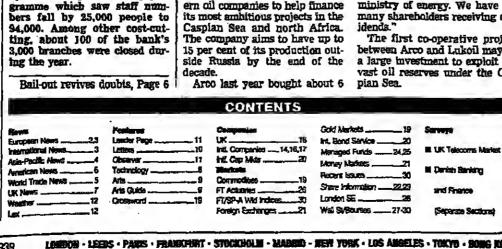
The Commission has grounds

to suspect that Powerpipe "which does not belong to the suspected cartel, was subject to reprisals by the cartel members," the letter says. Documents seized by investigators show that "members of the suspected cartel possibly threatened a collective boycott on both Powerpipe's suppliers and customers, in order for them to break their business connections with Powerpipe"

The moves against Powerpipe by members of the suspected cartel followed the Swedish compa-

> Continued on Page 12 Details, Page 3

SELECTED BY JAMES BOND Omega Seamaster Professional. Self-winding chronometer in stainless steel water-resistant to 300 m/1000 ft. Swiss made since 1848. James Bond is back in GoldenEve. On the wrist of the new agent 007 is an Omega Seamaster Professional diver watch - not just a precious rimepiece, but also a valuable life **OMEGA** The sign of excellence



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M Durish Banking

than ever.

Italian telecom

Telecom Italia, Italy's domestic telephone company, vester surprised consumers, shareholders and the telecoms minis by cutting phone charges to Britain, the Americas, Hong K

plan to reform tariffs - including increases in some local call-

charges - in the face of protests from consumer groups and

The utility said yesterday it expected an increase in the

The ministry claimed initially that Telecom Italia could not

change tariffs without a government decree, but the telecome

group said a November 1986 law governing the sector allowed it to reduce charges unilaterally. The ministry indicated yesterday it would probably refer Telecom Italia's decision to

the council of state for an opinion on its legality.

Telecom Italia said it had brought its call charges into line with the cost of calling Italy from abroad. Before the latest

profits earlier this week, was particularly vulnerable to sophisticated "call-back" services, which allow Italian-based callers to take advantage of cheaper international rates from such countries as the US and Britain.

Andrew Hill, Milani

New TV deal on soccer in Italy

Mr Vittorio Cecchi Gori, the Italian film producer and owner of two small television channels, yesterday relinquished his rights to transmit Italian league football for the next three

years less than a month after winning the L639hn (£267m) deal. The leagua federation said he had been unable to come up with the necessary financial guarantees.

The rights will now be bought by Rai, the state broadcasting

organisation, which until last month had always transmitted them. Rsi will pay the same price as Mr Cecchi Gori, equivalent to L213bn a year, but it will then sell back to Mr

Mr Cecchi Gori from the outset looked unlikely to fund his

probably always hoped to strike a deal with the Rai.

Everyone should now be happy. Mr Cecchi Gori has staked his claim to be a third force in Italian television alongside the

Sunday TV programmes, which over the years have been built round the day's football matches.

Robert Gruhum, Rome

Rai and Mr Silvio Berlusconi'a Fininvest, Rai has salvaged

face, while the Italian public can retain all their favourite

US pledge to Nato hopefuls

The US yesterday renewed its commitment to eastward

expansion of Nato, promising aspiring members from centrel and eastern Europe that the alliance must not and will not

keep new democracies in the waiting room forever".

Mr Warren Christopher, the US secretary of state, said in

Prague that Nato expansion was "on track and it will happen" But he warned potential members of Nato that they "must be

ready to assume the full risks, costs and responsibilities" that

membership entails. He said that the next steps towards

enlargement would be decided in December. Enlargement

criticism in central Europe of Nato "foot-dragging" on

Vaclay Havel of the Czech Republic and Alexander

it set up its mobile system.

would begin with "the strongest candidates" and would "neither determine nor be determined by events in Russia"

enlargement. This was voiced most recently by Presidents

Kwasniewski of Poland, who accused Nato of "hesitancy" on

Madrid told to repay Pta85bn

The Spanish government has been given two months to repay

The Spanish government has occur at the which operates ... Ptassbn (£448m) to the Airtel consortium, which operates ...

state-controlled operator, was not charged a similar fee when

The European Commission says the government must either repay the money, charge a similar fee to Telefonica or

adequately compensate Airtel, a consortium led by Airtouch Communications, the US mobile phone company, two Spanish

The Spanish government has accepted the principle that it

must compensate Airtel, but has yet to work out the details: Italy and Belgium, which also imposed fees on second mobile phone operators, have already been ordered to take similar

Vincent Boland, Prague

Mr Christopher's speech was seen as a response to growing

bld without selling on some rights or finding a partner, and

Cecchi Gori for Lesbu a year the rights for deferred

Videomusic channels.

transmission of some matches on his Telemontecarlo and

cuts, the group, which announced a strong increase in 1995

volume of international calls to offset the reduction in .

and Taiwan. Only two months ago the ministry froze a v

EUROPEAN NEWS DIGEST

tariffs cut

Belgian budget may miss deficit target

By Neil Buckley in Brussels

Belgium is unlikely to be able to reduce its budget deficit to 3 per cent of GDP this year, as the government had planned, to put the country on track to be one of the founder members of the single European cur-rency, finance ministry offi-

Slowing growth means Belgium faces a tough budget round this year to ensure it meets the 3 per cent target in 1997 - one of the convergence criteria for monetary union. The fears have emerged as Mr Jean-Luc Dehaene, prime minister, this week began discussions with employers and trade unions on proposals to limit wage increases for 1997 and to halve Belgium's 14

per cent unemployment rate in

five to six years. Belgium based its 1996 budget last antumn - wbicb aimed to reduce the deficit ratio from 4.5 per cent to 3 per cent - on a growth forecast of 2.2 per cent. That forecast was revised downwards in January to I.6 per cent, but officials believe the new figure may still be optimistic, given the economic slowdowns in neighbouring France and

Relgian economists are forecasting growth of between 1 and 1.5 per cent - likely to result in a sizeable budgetary shortfall. The finance ministry is still confident of meeting the deficit target in 1997 but officials concede this year's budget negotiations will be 'very difficult".

A government austerity programme, including a threeyear wage freeze and cuts in bealth and social spending, has already provoked sporadic strikes and demonstrations among public sector workers. Belgium should meet three of the five convergence criteria - those relating to inflation, interest rates and exchange rate finctuations - without difficulty. But, with the highest debt to GDP ratio of any EU member last year at 133.7 per cent, it has little hope of reducing debt to 60 per cent of GDP, one of the other

It is therefore counting on meeting the remaining criterion, reducing the budget defi-

By fulfilling four out of five conditions, and showing its deht ratio is on a firmly downward trend, Belgium believes it will still be accepted into the first group of countries proceeding to full monetary

The government hopes to reach agreement with trade nnions and employers this spring on capping 1997 salary increases to prevent a wage explosion when the pay freeze expires in December.

It wants to limit wage rises to the average of those of its main trading partners, Germany, France and the Nether-

But unions insist wage moderation should be balanced by a programme of job creation, to reduce the jobless total of 494,682 out of a workforce of just over 3m.

The government is likely to suggest linking a reduction in employers' social contributions - currently among the highest in Europe – to job cre-

Reducing the social burden on employers will form part of a wider government review of Belgium's over-stretched social security system, including the generous pension arrangements for the country's thousands of civil ser-

Santer calls leaders to account

Lionel Barber on why the EU president wants to put a stop to a list of broken promises

There has always been a "now they say it, now they don't" quality to European summit declarations. Promises pile up, but rarely are EU leaders held to account if nothing happens.

Mr Jacques Santer, the European Commission president, ended the conspiracy of silence yesterday. He said it was time EU leaders mada good on spending commitments, and took the unusual step of pres-enting a list for public consumption at a Brussels news conference.
The Santer wish-list contains

familiar, if long-stalled projects such as the showpiece transworks; but it also covers funding for the Northern Ireland peace initiative of Eculoom (\$128m); food aid for the Caucasus (Ecu70m); financial aid to Armenia and Georgia (Ecul70m); and extra posts inside the Commission for Austria, Finland and Sweden, the EU newcomers (Ecu23m).

Behind Mr Santer's action yesterday lies his determination to reallocate resources inside the EU budget - possi-ble because the switchover from price supports to direct income payments to farmers is expected to generate at least Ecn4bn savings in the EU farm budget between 1997

But EU member states, slashing spending to reduce deficits to qualify for monetary union by 1999, are insisting that savings are reimbursed to national budgets rather than left to the spending discretion of the Commission and the

European Parliament. Mr Santer, a former finance minister, is sympathetic to the call for budget discipline but is offering to hand back only half

the likely savings. He wants the rest for his "confidence pact", his sketchy initiative to restore employment and growth which amounts to the first risk he has taken since he became president of the Commission 15 months ago. Mr Santer confirmed yester-

day that he totends to take his plea for a "confidence pact" to next week's EU summit in Turin, whose official purpose is to launch the inter-governmen-tal conference on the future of The centrepiece of the Santer

growth initiative is a renewed push on the TENs, the multibillion dollar road, rail, and telecommunication projects which have become a symbol for EU public investment as well as a tool to strengthen communications links inside the single market. Arguments over funding

bave dogged the TENs since 1993. Mr Jacques Delors, Mr Santer's predecessor, failed to persuade EU leaders to support proposals for off-budget financing through "Brussels bonds". Now Mr Santer is seeking to bridge the Ecul.7bn financing gap for 14 priority projects through a request for Eculbn in the hope that private money will follow. The Commission president's argument - as he repeated again and again yes-

mit in Essen, which he attended as Luxembourg prime minister, EU leaders have committed themselves to the TENs projects without ever quite finding the means, chiefly because of opposition from EU

"It is a question of credibility," says one senior Commission official. "We must closa the gap between words and deeds. Oth-

erwise there can be no countability in the Union." Yet it is clear that Mr Santer is fighting a broader institu-tional battle as the Commis-sion struggles to hold political ground against member states. This is one reason why he has singled ont a request for Ecu700m extra financing for EU research and development, and an extra Ecu40m for programmes to boister small and medium-sized enterprises. "The

Commission is desperate to

stay in the macro-economic

Mr Erkki Liikanen, the EU budget commissioner, made an additional point yesterday. The Commission needs to clear its books in time for the broader debate over budget priorities which is needed ahead of the prospective enlargement to central and eastern Europe. around the turn of the century. By making the EU agricul-ture budget more flexible, Mr

Lijkanen hopes to evold ruin-

come through the much ation of new posts at the Com-cheaper mechanism of rural mission for 1997, the first halt In the last resort, Mr Santer - known as the Man who never says No - is gambling

that EU leaders will find his

to employment creation in

Santer: behind his action yesterday lies his determination to

If EU leaders still turn him down, the public can at least



By Caroline Southey

The EU Commission yesterday launched a new offensive on the need for an EU-wida approach to taxation, warning lack of progress was undermining the battle against unem-ployment and threatening effective implementation of the single market. The Commission's attempts

to kick-start a debate on the question of co-ordinating tax regimes across the EU follows years of acrimonious debate and little progress on the issue. The Commission has 18 proposals on the table for consideration by the council of ministers and has withdrawn 30 because of lack of progress. Taxation issues have to be

agreed unanimously by the council of ministers; member states have traditionally jealously guarded the sovereign right to set tax rates. The Commission moves cautiously on the question of harmonising taxes, advocating a "more closely co-ordinated approach to taxation"

It is much more aggressive in its analysis of the problems created by past delays in adopting common positions on tax issues, arguing urgent decisions are necessary if problems created by a lack of co-ordina-

The Commission consultation paper prepared by Mr Mario Monti, internal market Commissioner, and Mr Yves-Thibault de Silguy, commissioner for economic and finan-cial affairs, is due for discussion by economic and finance ministers next month.

Mr Monti argued that deci-

sions on taxation were imperative if the EU was to be successful in fighting unemployment. The paper argues the tax burden as a proportion of GDP. has shifted to labour as taxes on more mobile bases, such as capital, have been eroded; between 1980 and 1993 the implicit tax rate on labour for the EU grew 20 per

cent, while the rate for capital decreased by over a tenth.

"The burden on labour cannot be made heavier if we are

not to worsen the negative effects on labour costs and employment," Mr Monti said, pointing out member states bave been drawn into competition on taxes on capital. Mr Monti's second line of

attack was the negative affect of indecision on the single mar-ket. "Considerable progress needs to be made in eliminating distortions in the single market, to the fields of direct and indirect taxation," he said. The Commission paper argues a fully functioning sin a simplified VAT aystern? that treats intra-Community transactions as equal to dom tic ones.

· progress in approximating excise duty rates where this was justified by the freedom of

movement for goods.

• adapting personal taxes so they did not discriminate against non-resident taxpayers and scrapping tax disadvantages linked to cross-horder financial transactions such as insurance premiums, pensions and mortgage payments.

reducing discrimination against subsidiaries in other

member states by scrapping double tax on interest and roy-

Juppé acts on end to call-up

By David Buchan in Paris

Prime Minister Alain Juppé yesterday called on the French parliament to back the government's "historic" decision to phase out a century of military conscription and create a slimmed-down, fully pro-

fessional armed force by 2002.

Launching a National Assembly debate, Mr Juppé announced he was asking both houses of parliament for their views on what, if anything, should replace the 10month military draft, as well as asking the country's 35,000 mayors to organise local hearings on the issue.

The government is organising the nearest thing to a referendum, which President Jacques Chirac said last month was not constitutionally possible on an issue relating to defence. The main option being touted is a six-month national service for youngsters, mainly of a civilian nature, in the form of social work at home or humanitarian work abroad, but possibly in the gendarmerie, which is to get an enhanced

domestic security role The government says it is open as to whether such service should be compulsory or voluntary. Despite his rhetoric about the need for a great national debate, Mr Juppe gave the impression of not really caring what the outcome is, making clear it would not affect the government's 1997-2002 military programme law to be

This programme, aimed in President Chirac's words to produce "more efficient and less costly defence", is supposed to keep annual defence spending to FFr185bn (\$36bn) - in constant 1995 francs over 1997-2002: FFr99bn for pay and operations

and FFr85bn for equipment.
This represents no saving in pay, because although tha army is to be reduced from 239,000 to 136,000, recruiting volunteers will cost more, but will entail

less spending on equipment.

The Chirac reforms, designed to create a force of up to 60,000 professional troops that could be deployed quickly overseas, have raised fears of French presidents, on a whim, dispatching "expeditions" on foreign adventures.

Suggestions have also been made that the National Assembly should pass legislation to control presidential prerogatives in this area, rather as in the wake of Viet-nam the US Congress did with its War Powers Act. But Mr Juppé yesterday dismissed fears France would indulge in unilateral military "expeditions".

The government strategy of "force pro-jection" came in for criticism yesterday for inconsistency by its own backbenches. Mr Jacques Baumel, Gaullist vice-president of the Assembly's defence committee, won-dered how such projection was possible if France pulled out of the Future Large Air-Mr Charles Millon, defence minister.

Juppé: call for slimmed-down force

confirmed yesterday there was no money in the new programme for the FLA, but he hoped for a cheaper alternative. Acrospatiale, the aircraft group, said it was discussing this with the French air force. at the state-owned Giat tank-maker yester-

defence industry restructuring.

Unions in the navy's DCN shippards and day held protests over redundancies which they feel sure will accompany future

Backing on Airbus status

By David Buchan in Parls

Aérospatiale, tha French partner in the Airbus consortium, yesterday welcomed the German govern-ment's call for Airbus to incorporate itself into a regular company this summer and to launch the 550-seat A3XX airliner as a challenge to

Boeing.
"We are happy that
the German government now shares the same thesis as the French government with regard to the ASXX," Aérospatiale said, pointing out that Mr Bernard Pous, the French transport minister, had urged such a move in Feb-

Aérospatiale said it had at one time been reluctant to change Airbus from a European partnership into a limited company, but was now "engaged, like all other Airbus partners, in a thorough examination of how to change its

action by Brussels. Emma Tucker, Brussels German M3 rises strongly

banks and British Telecommunications.

German M3 money supply rose by an annualised rate of 12.6 per cent in February, according to the Bundeshank, thanks largely to increased credits to companies and individuals. This followed 8.4 per cent in January. The central bank's official target range is 4-7 per cent. The bank; however, warned about possible statistical distortions that can occur at the beginning

Economists disagreed about the impact of yesterday's figures. Some foresaw an early end to the current cycle of interest rate cuts; others argued that the Bundesbank relied on M3 only to the extent that it suited its objectives and that there remained sufficient headroom for further rate reductions. Vesterday's data were also swollen by a strong rise in bank loans to the public sector because of a series of largely Wolfgang Münchau, Frankfurt

Belarus leader sacks editor

President Alexander Lukashenko's battle with the local Belarus media has taken a new turn with the sacking of Mr Nikolai Galko, editor of Narodny Gazeta, which is owned by the country's conservative-minded parliament.

The legality of the decree signed by Mr Vladimir Zametalin.

former head of the presidential administration and the president's closest adviser, has been challenged by the editorial staff. "The president already controls radio and TV and has forced the independent press out of the country. Now he has dismissed the editor in chief of Narodny Gazeta in a similar arbitrary way," said Mr Vadim Bukat, the paper's foreign editor. Last month Mr Lukashenko announced closer links

between his country and Moscow after meeting Russian President Boris Yeltsin, Russian customs officers already operate with Belarussian officials on the borders with Poland and with Lithuania, where the independent Belarus media have been forced to print the papers and magazines which are then brought across the frontier for sale in Anthony Robinson, East Europe Editor

Greece and Albania bury hatchet

President Costis Stefanopoulos of Greece flies to Tirana today to sign a friendship pact with President Sali Berisha of Albania. The much-postponed visit should seal a gradual improvement in relations, now that disputes appear to have been resolved over the status of an ethnic Greek minority in southern Albania and of an estimated 300,000 Albanian immigrants working illegally in Greece.

Albanian officials have agreed that schools in southern Albana should provide Greek-language teaching.

Albania has also lifted the visa requirement for Greek businessmen, while Greece is preparing legislation allowing at least 150,000 Albanians to be issued with temporary work

Greek companies have invested some \$50m in Albania. mainly in retailing, textile manufacturing and tobacco processing. Several Greek banks have applied for licences to open branches in Tirana to handle transfers of funds from Albanian immigrants in Greece amounting to an estimated

Aznar party shifts stance | Rexrodt stands by jobs on Spain's regional policy alliance with unions

By David White in Medrid

Spain's centre-right Popular party, trying to muster a par-liamentary majority after its narrow election victory earlier this month, yesterday launched a fresh phase of negotiations with regionalist parties based on an adapted set of

Mr Rodrigo Rato, PP vice-sec-retary, said that by publishing the proposals the party aimed to reassure the Spanish public and financial markets that there was a firm basis for forming a stable government "within a reasonabla time".

But with the new parliament due to convene next Wednesday, he would not set a target date for an agreement and said it was "still open" whether a pact would include other par-

The new talks follow tentative contacts between senior party figures immediately after the elections and talks on Sunday between Mr José Maria Aznar, the PP leader, and Mr Jordi Pujol, the Catalan regional president, whose

party has a pivotal role. The PP has had to jettison proposals which figured promi-nently in its election campaign - notably its plan to reform the penal code to ensure that convicted members of Eta, the Basque separatist organisation, serve their full sentences without remission.

The PP document marks a change of emphasis in its regional policy, promising "dif-ferentiation" between regions. This is aimed at satisfying demands by the mainstream

Catalan and Basque parties for "historical nationalities" to be treated on a different basis from other regions, with a larger degree of home rule.

The PP hopes to strike a new deal on the financing of regional governments, giving

them a share of responsibility in raising taxes. Mr Rato said there were "various technical formulas" for doing this. The party has dropped the specific tax-reduction targets set out in its manifesto, which aimed at moving to a UK-style income tax structure with a

cent to 40 per cent. The negotiating document instead makes a vaguer commitment to "gradual reduction" of average income tax rates and social security con-

maximum rate cut from 56 per

The German government yesterday reaffirmed its support for the trade union inspired "alliance for jobs" after a leading employers' representative declared that the concept as first developed by the powerful IG Metali union

Mr Werner Stumple, president-elect of Gesamtmetall, the metal industry employers' fed-eration, had insisted there was no way his members could create the 100,000 jobs demanded by IG Metall this year as a trade-off against wage restraint

in 1997. Rexrodt, the economics minis-

level of employers' federations and trade unions but by "many thousands of alliances", such as those at company level in which management and workers representatives would negotiate the conditions for hiring and firing people.

Meanwhile, with one in nine

of the labour force officially unemployed, employers and unions representing 225,000 workers in the clothing indus-try announced the first sectorwide alliance for jobs. In contrast to the IG Metall

plan, they avoided any commitment to job creation. Instead. the employers agreed on However, Mr Gunter annual wage increases of 15 per cent from May 1 in line ter, countered that Germany's with inflation. The textile and needs would not be met by apparel workers union

accepted more flexible working hours and agreed companies in difficulty could suspend the wage rise temporarily in return for job guarantees. Mr Stumpfe yesterday put forward his own concept for

job creation which centred on achieving a 20 per cent cut in unit labour costs. In a speech to industrialists in the Ruhr city of Duisburg, he said half the reduction in costs should be achieved by companies through better organisation. The state should contribute a quarter of the cost reduction by freeing social security funds of hurdens heaped on them as a consequence of German unification. The remaining quarter should come from employees through such measures as

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ES THURSDAY MARCH 21

Brussels digs for evidence of heating pipe cartel William Lewis and Hugh Carnegy report on how ABB of Sweden and other

not a man to mince words. When the owner of Isophus, a German-based maker of district heating pipes, heard in late October 1994 that Powerpipe, a Swedish competitor, had won a big district heating contract in the east

German city of Neu Brandenhurg, he quickly made an "offer" to his Swedish competi-Give up the Neu Branden burg contract, collect DM50,000 (\$34,000) in compensation and join the cartel operating in the

district heating business. If Powerpipe refused, and continued to outbid cartel members for contracts, it would never be talked to again.

The incident is just one case

in a large dossier of evidence now being sifted through by the control of the co the European Commission. It is examining the operation of a suspected tightly knit cartel within the district heating pipe manufacturing industry, which has a total annual turnover in Europe of about \$1bn. The evior dence has been gathered chiefly in a series of raids carried out by Commission officials last June.

Organised price fixing, deals to carve up market share and intimidation are all methods which Brussels suspects have regularly been used to enforce or attempt to enforce - the cartel in a number of European countries, including Denmark, Austria, the Netherlands, Sweden, several east European states and, most notably in the past two years, Germany.

Six companies are suspected of being members of the cartel: ABB, which was recently awarded the title of "Europe's most respected company" in a survey of top executives, three Danish companies, Logstor, Tarco and Starpipe, and two German-based companies, Panisovit and Isoplus, which has a factory in Austria.

The chief victim of the suspected cartel in recent years is understood to be Powerpipe, an independent, privately-owned company based outside Goth-

A relative newcomer to the industry, Powerpipe has succeeded in building np a strong market share in Sweden and in the past two years has won manager of technology and

companies are suspected of carving up a large portion of the European market important contracts in Germany, established a subsidiary in Poland, moved into other

east European markets and even won contracts in China. The growing strength of Powerpipe - it has a market share in Sweden of more than 30 per cent - belies its position as cartel victim. But allegations have been made that members of the suspected cartel systematically attempted to squeeze Powerpipe out of key markets and have attempted to discredit Powerpipe within the district heating market.

A former Powerpipe chief

executive was posched by ABB in 1993 and placed in an executive position under Mr Kaare Wagner, the ABB senior executive manager formerly responsible for district heating operations. Other senior employees were lured away to work for other suspected cartel members. The investigators believe

that suspected cartel members subjected Powerpipe to reprisals after the award of a contract in Leipzig-Lippendorf in March 1995, just months after the Swedish company had won the contract in Neu Branden-

Powerpipe at first decided not to bid for the Leipzig-Lippendorf contract because of its size. The initial contract - part of a huge \$3bn energy complex biggest of its kind in Europe

POWERPIPE

'Members of the suspected cartel possibly threatened a collective boycott on both Powerpipe's suppliers and customers, in order for them to break their business connections with Powerpipe.' European Commission investigators

Commission investigators suspect ABB to be the lead company in the district heating pipe 'circle'. Yesrerday, ABB said: 'We have no comment as long as the investigation is going on.'

for 10 years and larger than Powerpipe believed it could finance and supply. But Viag, the contractor, was angered by evidence that the cartel was attempting to fix the deal.

in an apparent slip-up by suspected cartel members. Logstor undercut a bid by a consortium of ABB, Panisovit and Isoplus. When Logstor suddenly recast its bid above the ABB-led consortium's offer, Viag turned to Powerpipe, urging it to make a hid, which Viag offered to help finance.

Powerpipe's offer was pitched to ensure it achieved an operating return well above its normal small profit margin - but it still came in below the ABB consortium and it won the con-

tovestigators suspect that in retaliation, cartel members possibly threatened a collective boycott on both Powerpipe's suppliers and customers. in order for them to break their business connections with Powerpipe", a letter written by the Commission states.

should it be proved that this is the work of a collective boycott, it could represent a serious violation of Article 85 of

Further allegations of boycotts came last year in Den-mark, where district heating was first established as early as the 1920s and where allegations of alleged cartel behaviour by the main operators have frequently been made in the local media.

These have been prompted mainly by the fact that prices for district heating contracts have at times been as much as 50 per cent higher than in neighbouring Sweden, despite both markets being served by many of the same companies. Powerpipe entered the Danish market for the first time in 1995 when it won a SKr1.5m

(\$221,000) contract to deliver pipes to the city of Aarbus. Within weeks, a key Powerpipe sub-supplier which has most of its bustoess with suspected cartel members, told the Swedish company it could no looger deliver. The move meant Powergipe was forced to withdraw from the Aarhus contract and has since been absent from the Danish market.

"Of course, Powerpipe was squeezed out by the cartel putting pressure on the sub-supplier," said a Danish engineer with close knowledge of the case. 'The same sub-supplier

to Powerpipe competitors, so why couldn't they have gooe on delivering to Powerpipe?" The company was not available for comment yesterday.

In the case of Leipzig-Lippendorf, the Commission also has evidence ABB district heating executives in Germany attempted to persuade Viag to disqualify Powerpipe on technical grounds from the con-tract there. Suspected cartel embers have frequently publicly cast doubt on Powerpipe's ability to meet quality stan-

The reaction of the suspected cartel members in both Neu Brandenburg and Leipzig-Lip-pendorf sheds the clearest light on their methods of operating - although, irooically, both contracts were won by the out-

sider. Powerpipe. In the case of Neu Brandenburg, the suspected cartel was anxious to restore order to its affairs after a price war in early 1994 prompted by the intrusion of Tarco into the German market for the first time. By October, Tarco and the suspected cartel had made peace as the Neu Brandenburg contract - an order of tubing for a municipal central heating system - was out for tender.

It is understood there were more than 20 cases in Germany wbere contracts worth more than DM100.000 had been divided up by the suspected

That letter warns that was able to continue to deliver cartel. Under the system it should it be proved that this to Powerpipe competitors, so operated, investigators suspect, ABB had a guaranteed market share of 50 per cent. Logstor of 20 per cent and Isoplus between 10-15 per cent, with

the rest going to the other members. Commission Investigators believe Isoplus had been "awarded" the Neu Brandenburg contract by the cartel. It bid DM970,000, the lowest of all the cartel bidders, and this was recommended by Neu Brandenburg's purchasing director. But, unknown to the cartel, Powerpipe bad sent its DM500,000 bld secretly to the home of the manager in charge

of awarding the contract.

Suspected cartel members were furi-ous with Powerpipe for exposing them and for beating Isoplus to the contract. Representatives and executives from Isoplus, Logstor and ABB then tried to persuade, cajole and threaten Powerpipe into back-

ing out of the Neu Branden-

hurg contract. Apart from Mr Henss's approach, Mr Klaus Beck, sales director of Logstor, and a con-sultant to Isoplus and other district heating companies

Evidence in the hands of the

cartel members explicitly acknowledged co-ordinatiog their actions in deciding bow to deal with Powerpipe, orchestrated by ABB executives.

Mr Henning Balle Kristensen, bead of ABB's district beating division, is named as the main person involved. Mr Kaare Vagner, a Danish exboxing champion and member of ABB's senior management group, used to be responsible for district heating, but ABB said yesterday that Mr Armin Meyer, another vice president, now had responsibility. The European industry association, the European District Heating Pipe Manufacturers Association, is identified as the main cover for cartel activities which are said to be based on regular talks.

Individual executives appear to have been assigned the job of approaching Powerpipe on the suspected cartel's behalf. Among the offers made were suggestions on dividing up market share in Sweden including the removal of at least two outside companies to stabilise prices and ensure Powerpipe a regulated, profit-

Powerpipe would also be given some shore of other European markets, to be hammered out to meetings to be arranged if the Swedish company agreed.

If Powerpipe refused to comply suspected cartel members would organise aggressive price cutting, or price dumping, on individual cootracts in

At different times in differ-ent markets, relationships between the suspected cartel members break down, leading

to price wars. A clear example of this came in 1994 in Denmark. A steady price trend was suddenly bro-ken two years ago after Isoplus came into the market for the

first time and prices fell by up to 40 per cent. Within a year, prices were back to 1993 levels, Evidence

held by the Commission shows suspected cartel members acknowledging that Isoplus was brought into the fold in Denmark, restoring order. Evidence shows that similar efforts have been made to stabilise the operation of "the circle" across Europe in an effort to cut ont the incidence of such occasional infighting.

Suspicion falls on 'most respected company'

The suspected involvement of ABB, the Swedish-Swiss engineering multinational, in a Europe-wide district beating cartel does not fit easily with the company's reputation for excellence, write William Lewis and Hugh Carnegy.

In September, ABB was judged in a survey of 1,000 senior executives in 18 European countries to be Europe's most respected company for the second year in succession. ABB also emerged in another poll

of chief technology officers of 100 European companies as the European company considered to be the best

innovation. Mr Percy Barnevik, the Swedish chief executive, is one of Europe's most bigh profile managers. The group was formed by the 50-50 merger in January 1988 of Sweden's Asea and Switzerland's Brown Boveri, both marginal operators - in global terms - in the electrical

Asea is controlled by Sweden's Wallenberg family, one of Europe's most powerful industrial dynasties, companies such as Astra, Ericsson, Electrolay, Saah and Scania.

engineering business which has a controlling interest in

In its first year, ABB had sales of \$17.8bn and net income of \$386m.

Today, it is one of the top international competitors in this field, alongside General Electric of the US and Slemens of Germany. In Pebruary it announced a 73 per cent increase in net profits for 1995 to

\$1.32bn on sales of \$33,73bn. Analysts say the company appears well placed to enjoy above average growth in revenues and profits in the

ABB has five so-called husiness segments: power generation, power transmission and distribution. industrial and building systems, financial services and transportation equipment. District heating is headed

NEWS: INTERNATIONAL

by Mr Armin Meyer, an executive vice-president and a member of the group executive committee. ABB said yesterday that Mr Meyer last year took over responsibilities

for district heating from Mr Kaare

Vagner, another executive vice-president ABB operates in the district heating market chiefly through a Denmark-based subsidiary called

I.C.Moeller and a German subsidiary called ABB Isolrohr. Mr Henning Balle Kristensen is

managing director of ABB's I.C.Moeiler. Mr Christian Engstedt was formerly managing director of

ABB's district heating operation in Sweden but ABB said yesterday that be was now working elsewhere within ABB.

European Commission investigators suspect ABB to be one of two key participants in the suspected cartel, alongside Logstor, a Danish company.

Evidence they hold includes direct references by suspected cartel members identifying ABB as the most important company in co-ordinating activities within the circle, with Mr Balle Kristensen as the key figure.

US driving Iranian regime into Russian arms When Mr Ali Akbar Velayati, the Iranian foreign minister, While Washington talks sanctions, Tehran is cementing ties with Moscow In addition, any bank which

states of the Central Asia in 1991, alarm bells rang in both Washington and Moscow: fundamentalist Islam seemed to be

marching north. Nearly five years on, Iran has established itself as an important diplomatic and commercial player in the southern states of the former Soviet Union - but spreading militant islam appears to be tha last. thing on its mind.
Instead, Iran is projecting its

influence as an economic lifeline for Armenia, a would-be peacemaker among its ethnic kin in Tajikistan, and a privi-leged commercial partner for the energy-rich republic of The pragmatic face which

Tehran has shown its neighbours can be seen in Ashgabat, the Turkmen capital - where Iranian-owned shops, decked out with portraits of Iran's spiritual and pobtical leaders. de a brisk trade in Coca-Cola, Kodak cameras and long-life

hatteries.
This triumph of commerce over ideology has created some strange bed-fellows. The National Iranian Oil Company, for example, has recently joined a consortium of western companies refurhishing the

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Threbmanhadi raffinary in Ash. So far Iran has annarently. Iran hy contract faces such. IIN appropris sumnort for a pas gabat. It will work alongside failed in its bid to assist Russia a foreign exchange shortage Merhay, an Israeli company.

In Transcancasia, Tehran enjoys close relations with Christian Armenia, providing its only relief from an Azerbaiiani blockade. As a result. Iran's ties with its fellow Shia Moslems in Azerbaijan remain prickly. But when Mr Velayati revis-

ited the Commonwealth of Independent States this month: he was cordially received in eight capitals - including Moscow, whose leaders volced confidence that Russia and Iran could work together to all regions, from Bosnia to Aghanistan, where both have interests. The hardest test for Russian-Iranian co-operation will come in Tajikistan, where Russia is backing a bardline regime against Islamist rebels operating on both sides of the

by "delivering" a more compromising stance by the Tajik rebels. But Russian officials still appear to be counting on the governments of hoth Tehran and Kabul to put religious loyalties aside and help Moscow stabilise the region.

Russia and Iran have several times agreed that any exploita-tion of the vast energy reserves in the Caspian must be subject to agreement among all the littoral states - while Azerbaijan and its western partners strongly disagreed. The coincidence of views

between Moscow and Tehran on this subject is not total. At least one school of thought suggests that Russia has attempted to "play for time" in the Caspian by obstructing major energy deals until Moscow can reassert its influ-

that it needs Caspian drilling to go ahead as soon as possible. But all recent signals from

partners, not competitors. US officials, who are furious critics of Iran's behaviour in other areas - and of Russia's role in helping Iran with nuclear technology - have been relatively silent on the subject of Iran's role in Central

both Moscow and Tehran have

indicated that they see each as

But the issue of Iranian influence in the CIS is likely to come to a head in the coming weeks as the US Congress a ban on US imports from the redoubles its effort to tighten the blockade on Iran and impose punitive measures on companies which deal with it. Senator Alfonse D'Amato, one of the harshest US critics

pipeline that would cross several states including Iran.

The International Relations Committee of the House of Representatives is today expected to pass on to the full House a hill that would hind Mr Clinton to impose harsh penalties on non-US companies dealing with Iran.

The bill would require Mr Clinton to chose at least two out of five possible sanctions against any company that invested more than \$40m in Iran's oil industry or traded with Iran in oil-related goods.

The sanctions would include: companies concerned: a denial of US export licences to those companies' US subsidiaries; a prohibition of Exim bank assistance to those subsidiaries; a ban on US banks lending to the of Iran, protested furiously to sanctioned companies; and President Bill Clinton over a exclusion from US government

dealing in US securities. The White House is nervous of sparking a trade war with its European allies, and will press Congress for maximum flexibility. But Congressional critics of Iran are confident of passing most of their propos-

On the face of things, the US measures could kill stooe dead any interest among western companies in those projects such as new pipelines from Turkmenistan to Iran - which might serve to consolidate

Iran's regional influence. But Iran's isolation may prompt it to co-operate even more closely with partners in the former Soviet Union - and the Moscow-Tehran axis could grow eveo stronger.

Sander Thoenes, Afshin

be as high as \$3,300bn." Molavi and Robin Allen

Bank tries to plug looming water conflict

Conflict over scarce water

Tajik-Afghan border.

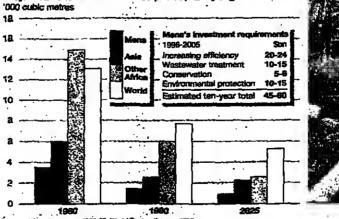
resources in the Middle East and North Africa can be avoided if governments reduce subsidies, promote more effiwater away from low-value agriculture to cities and people, the World Bank says in a report on the region's looming crisis, published yesterday. It says investment of

between \$45bn and \$60bn over the next 10 years would increase water supplies by 50 per cent and avoid disputes which many fear could cause another war in the region. The hank has proposed a

conference early next year to include governments in the region, the European Union, the African Development Bank, and Arab funds and bilateral donors.

Most of the investment would come from the countries themselvas, through user charges. Donors would contribute about 25 per cent.

One of the worst examples of the water crisis is Gaza where each Palestinian has access to less than 15 gallons a day, compared with 800 gallons for each American. If no action is taken each Palestinian may have less The Middle East and North Africa, and the world's water Projected renewable resources per capita by region



than eight gallons a day within metres by 2025. The report says 87 per cent of water is allocated to irrigaremedied within a decade, tion and only 13 per cent to municipal and industrial uses. compared with 69 per cent and 31 per cent worldwide. Irrigacent of municipal water sup- tion efficiency in the region is so poor that, in flood irrigation, only 30 per cent of the water reaches the crops.

Even small transfers of trends it will have fallen 60 per water out of agriculture could cent to about 1,250 cubic make a big difference. "A 15 per cent is wasted, the report done successfully," it says.

per cent reduction in agricultural use in the region would

donble the water available to households and industry," it says. The bank recognises that shifting water from agriculture is socially and politically sensitive, but argues that if farmers paid the real (unsubsidised) cost of water they could be shown how to grow water-effi-

targets poor maintenance. inappropriate technology and weak technical and financial

Local, national and international initiatives had so far shown few benefits because "national institutions do not work together, plans and programmes are often duplicated and sometimes contradictory, donor involvement is frag-mented and unfocused and eavily subsidised water provides little incentive for conservation."

The hank advocates the sory councils with representatives from governments and users to increase community acceptance of the need for conservation. Some form of national water authority should be responsible for strat-egy but delivery should be decentralised, becoming the responsibility of river basin and regional irrigation authorities, water and sewerage utilities and rural communities.

Though unpopular, the report argues that private sector involvement in the water sector is imperative. "The first step to efficiency is to commercialise operations as most European public utilities have INTERNATIONAL NEWS DIGEST

Disaster claims

Claims borne by the world's insurance companies from large-scale natural disasters could double by the end of the decade, according to forecasts yesterday by Munich Re, the world's largest reinsurance group. As fears about global warming grow, insurance companies should reduce still further the risk they assume in vulnerable areas, Munich Re says. They should also persuade clients to bear more of the

risk through higher policy excesses. In its annual survey of natural disaster costs, Munich Re highlights the trend towards ever more costly disasters. Last year, losses from natural disasters reached \$180bn, including the Kobe earthquake in Japan which killed more than 6,000

Losses covered by insurance policies last year were relatively low - largely because much of the damage in Kobe was uninsured. But, Munich Re comments: "The earthquake in Kobe cast as stark light on the vulnerability of modern cities to the powers of nature. The loss potential of similar events in conurbations like Osaka, Tokyo, and Los Angeles is many times higher . . . Overall economic losses in Tokyo could

in the past 10 years, the number of "great" natural catastrophes has increased four-fold compared with the 1960s. After allowing for inflation, total losses were more than eight times as high and losses covered by insurance policies increased by a factor of 15. Ralph Atkins, London

Nigeria ousts disgraced bankers

The Central Bank of Nigeria has removed 178 bank directors and barred 75 others from such posts in a clean-up of frand which has left more than half of Nigeria's 116 banks insolvent. Many of the sacked directors are already detained or facing charges at a special tribunal set up last year hy a military decree which gave the central bank and the Nigerian Deposit Insurance Corporation (NDIC) sweeping powers of arrest and recovery of funds. in addition to forfeiting their shareholdings, the directors would also refund N700m (\$8.3m) they owed to the banks involved, the central bank said.

The main cause of the collapse of the banks is theft or fraud by senior staff, directors and sharebolders. Rampant fraud followed the vast increase to the oumber of banks and finance houses after partial deregulation in 1986. Poul Adams, Lagos A United Nations fact-finding mission will travel to Nigeria at the request of the military regime there next weak to look toto the judicial procedures followed in the trial and execution of Mr Ken Saro-Wiwa and other leading dissidents. The executions provoked international outrage and some Michael Littlejohns, New York

Bomber kills Israeli soldier

A suicide bomber killed one Israeli soldier and wounded five others in south Lebanon yesterday, only hours after Mr Shimon Peres, Israeli prime minister, said Israel would practise restraint there if not provoked by Islamist guerrillas. The attack, claimed by the Iranian-backed Hizbollah, adds to tension on the Israeli-Lebanese border following recent bombings which killed five Israeli soldiers.

The bombing has fueled speculation that a big Israeli strike is imminent. Israelis and Lebanese had been expecting an operation this week in response to both the Hizbollah attacks and recent suicide bombings inside Israel. Israeli papers reported yesterday that the US had pressed Mr Peres to delay military action while it urged President Hafez Assad of Syria to rein in Hizbollah. Mark Dennis, Jerusalem

30 years, the report says.

plied, could be halved.

But the situation could be

Water supplies could be

increased by 50 per cent and

water losses, now about 50 per

In 1960, says the bank, water

supply per head per year was

3,300 cubic metres. On present

cient crops.

On urban water, where 50

Patten assails Beijing plan to scrap Legco Growth slows

By John Ridding in Hong Kong

Mr Chris Patten, governor of Hong Kong, yesterday condemned China's plan to replace the territory's elected legislature, claiming it was aimed at reducing the number of democrats and excluding certain individuals from the body.

Mr Patten's comments came as the Beijing-appointed group, overseeing Hong Kong's handover to China. appeared set to confirm proposals to scrap the present Legislative Council (Legco). in spite of strong opposition from Britain and local democrats.

tory Committee, which is meeting in plenary session in Beijing at the end of the week, indicated they would approve the formation of an interim Legco. But they said details of how a provisional legislature would be formed may take more time to

The fate of Legco, elected last year under political reforms introduced by Mr Patten, has remained a subject of acute dispute between Britain and China ahead of next year's handover. In a visit to Hong Kong earlier this month, Mr John Major, Britain's against carrying through its pledge to dissolve the body. He indicated he would seek world backing in support of Britain's stance.

Last year's Legco elections marked a victory for the Democratic party, led by Mr Martin Lee, and a blow for pro-Beijing groups. Mr Lee said abolition of the present Legco would prevent the territory's autonomy.

Mr Tsang Yok-sing, leader of the pro-Beijing Democratic Alliance for the Betterment of Hong Kong, defended the decision to implement a provisional Legco. He said Mr Patbecause no agreement had been reached with Beijing on the issue, despite 17 rounds of negotiations. The 1994 Sino-British Joint Declara-

tion specified only that the legislature should be constituted by election, Mr Tsang added. He indicated the provi-sional legislature could be elected by a 400-member selection committee, to be formed by the Preparatory Committee, and that the provisional Legco would then be replaced as soon as possible by a new elected body. Mr Patten also urged China to

Members of the 150-strong Prepara- prime minister, warned Beijing ten's political reforms were invalid abode in the territory.

ory Committee, which is meeting in against carrying through its pledge to because no agreement had been. The long queues for British National Overseas passports, which will replace the present British Dependent Territory Citizens' pass-

ports, reflected concerns about issues

of nationality and right of abode. China has said passports for the Special Administrative Region (SAR), as Hong Kong will be known after 1997, will be issued in the territory; Britain has announced visa-free access to the UK for SAR passport holders. But China has yet to specify the conditions to qualify for right of

Okinawa seeks a lighter defence burden

The island feels it has been unfairly imposed on. Peter Montagnon reports

he Kyohan Bookshon in Okinawa's main town. Naha, bas just taken delivery of a new edition of a book by the prefecture's Governor Masahide Ota.

Kyohan says the book, hastily reprinted in response to Mr Ota's campaign to remove all US bases from Oktoawa by 2015, is selling well, Its title. The Ugly Japanese, the Out-rage of Okinawa, is a reminder that Mr Ota's quarrel is as much with Tokyo as with Washington.

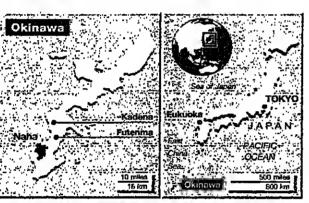
Still, Mr Ota's campaign has placed politicians on both sides of the Pacific in a quandary. Okinawa's Pacific location is of peculiar strategic importance. Home to 28,000 of the 47,000 US troops in Japan and the site of three-quarters of their installa-tions, it is the cornerstone of

the US-Japan security alliance. The alliance, as most defence experts recognise, is the cornerstone of the entire region's security not just that o Few Asians want to see it weakened just as tension is rising in the Taiwan Strait.

The search for a workable compromise will be high on the agenda for President Bill Clinton's visit to Japan next month. Before that, next Monday, tempers could flare again when a court in Fukuoka, on Japan's soutbernmost main island. Kyushu, rules on whether Mr Ota is obliged to force local landowners to renew leases to US forces which expire at the end of the

The court is expected to rule in favour of the Tokyo govern-ment, which brought the case to secure renewal of the leases. but Okinawans bave already objected that it refused to bear depositions by local people. The immediate spark for a

campaign to close the bases was the rape of a 12-year-old schoolgirl on Okinawa last



	1972	. 1992
Spending by servicemen and civilian employees	¥41.4bn	¥54.6bn
Income of Oldnawan employees on base	¥24.0bn	¥50.0bm
Rent for military sites	¥12,6bn	¥56.8br
Total receipts for military transactions	¥78.0bn	¥161.4bn
Share of receipts in Okinawan GDP	15.4%	5.1%
Number of Okinawan employees on bases	20,000	7,900

apologised profusely for that incident, but they can do little to overcome the deep-seated feeling among Okinawans that their remote island has long been unfairly imposed on.

Resentment goes back to the end of the second world war wben Okinawa saw some of the bloodiest fighting on Japanese territory. About a third of the local population died. Okinawan museums still record how Japanese soldiers killed local children and stole their

food. Many Okinawans still believe they were deliberately sacrificed to keep fighting away from the Japanese mainland. The problem continued

September, for which three US servicemen were convicted.

Americans of all ranks have after the war, when land was regulsitioned by the US and turned into hases. Emotions were already high last year, the 50th anniversary of the fighting. Then came the rape

> "The gasoline was sloshing around on the floor and a match was thrown in it," says Lt Col Marc Smith, chief of the US Army area field office. Okinawans bear a remarkable lack of personal animosity

to the Americans in their mid-dle. Stoce the rape incident, the US has stepped up its efforts at good neighbourliness. Last week, flights were tempo-rarily halted to minimise noise during the annual Japanese high-school entrance exams. There is no hatred for indi-

vidual Americans," says Mr

Kanko Teruya, a senior official to Mr Ota's office. Instead, he argues, Okinawans are frustrated at the way their concerns have been ignored. The present campaign is part of a carefully planned policy for

phased removal of the bases in train before the rape incident. The question should have been tackled when Okinawa. which had been under US administration stoce 1945. reverted to Japanese administration in 1972, Mr Teruya

The bases now take up about 20 per cent of Okinawa's land space, including valuable space in the urban south-west, but according to both Okinawan and US calculations, they contribute only about 5 per cent to local economic output. Besides the constant noise,

Mr Teruya says, Okinawans are worried about the risk of accidents around bases in the middle of residential areas. west has 16 schools in its immediate vicinity. The bases take up land needed for urban development. Nearby, the vast Kadena Base with its 20km perimeter takes up over 80 per cent of the land space of Kadena town.

Resentment festers even about seemingly small things, such as the reduced road tax paid by US personnel. Local people say the absence of number plates on US military vehicles makes it hard to claim compensation when they are involved in accidents.

"If you say the security tie [with the US] is important, why should Okinawa people have to shoulder a significantly heavy burden for it?" Mr Ota told the Fukuoka

Yet mainland Japan is unwilling to share the burden. The bases could not be moved to the mainland without huge

protest, says Ms Yuriko Koike. a Diet member from the oppo-sition New Frontier party. "It would be like transferring a ticking bomb." The answer, she believes, is

to give Okinawa, the poorest prefecture in Japan, more belp beyond the huge subsidies it already receives. A special taxfree status could help it realise its ambition of becoming an toternational tourism and busi-

ness centre. For now, the US and Japanese governments are concentrating on practical ways of making life easier. Agreement is near on the reduction of noise and on plates for military vehicles. A special committee is due to report in November on ways of consolidating and

reducing the bases.
"By the time of President Clinton's visit to Japan in April, many of those measures will have taken shape," says Mr Yukihiko Ikeda, Japan's

ess clear is whether what promise to be largely cosmetic measures will be acceptable to Okinawans. Among the first batch of facilities they want returned Futenma Base itself, which is the only forward deployment base for the US Marines outside the US. There is scant chance of either Washington or Tokyo agreeing to that.

Officials in Tokyo try to be understanding but they know that ultimately they may have to be tough. "The government has no intention of letting the US face the awkward situation of eviction," says one senior official. "We have to ensure the

security of Japan."
Governor Ota, a peaceable
history professor before he entered politics, may not relish the thought of going to war. but he seems likely to face a long and bitter campaign.

Military tightens its grip

The Lao military strengthened its grip on the country's political and economic machinery yesterday as the ruling Com-munist party sacked Mr Khamphoui Keoboualapha, a reformer and deputy prime minister, from party leadership positions and handed the army a majority on the new nine-man polithuro.

The moves, announced at the end of the party's first full congress in five years, are unlikely to derail the economic liberalisation programme, but reforms are now likely to be dictated by the economic ambitions of the military establishment, diplomats and other observers said. In a broad resbuffle, Mr

minister and former bead of the armed forces, was selected to bead the politbure, antomatically replacing retiring President Nouhak Phoumsavan as bead of state. Mr Choummaly Sayasone, defence minister, was promoted to the polithuro's third spot and is now the favourite to replace Mr Khamtay as premier when the national assembly meets next month.

Losing their posts both on the polithuro and in the party's 49-member central committee were Mr Khamphoni and another reformer, Mr Phao Bounnaphon, commn-nications minister. Their execntive positions in the government are expected to come under beavy scrutiny by the national assembly as a result of being removed from their

party posts. In a speech last Sunday to open the party congress, the prime minister barshly criticised implementation of economic reforms in landlocked Laos, one of the poorest countries with an annual per capita tocome of less than \$400. The party was going to "expel" government officials and bureancrats who "have not yet tried hard for a success", be said, complaining that inflation last year hovered around 20 per cent and there was a corresponding devaluation of the local currency, the

kip. Bnt Mr Khamtay, now the undisputed strongman of Laos. stopped sbort of criticising the value of economic reform. Instead it now appears "the military will have the upper hand to directing the reform process", said one diplomat. The military is beavily involved in private business

ventures. The government bas broadly divided the country into three development areas and given three military owned companies exclusive logging concessions in them. Wood exports are Laos's second largest foreign exchange earner and the military com-

in Australia By Nikki Talt in Sydney

Australia's economy continued to grow at around 0.5 per cent, seasonally adjusted, during the final quarter of 1995, bringing the annualised growth for the year to about 3.1 per cent. The final-quarter result marks a considerable slowdown from the 1.6 per cent rise in real gross domestic product

could slip below 3 per cent.

have tailed away altogether in the final quarter. This concern was snggested as a factor behind the timing of the federal election – the poll date was March 2, comfortably ahead of yesterday's release. In the event, the boast that Australia had achieved 17 consecutive quarters of economic growth failed to save the Labor government, and it is unlikely tbat confirmation of the growth trend continuing for a

record 18th quarter would have made much difference, either. Yesterday, Mr Peter Costello. federal treasurer, said the accounts showed "a worrying but not unexpected weakening in growth". He noted a contrib-

ntory factor to the slowdown was a drop-off to investment in plant and equipment during the final quarter of 1995, which could prove temporary. "The todication to date Is

ASIA-PACIFIC NEWS DIGEST S Korean GNP **grows by 8.7%**

South Korea's gross national product grew 8.7 per cent in 1995. a slightly slower rate than earlier predicted, the Bank of Korea said yesterday. The central bank also said that Korea's per capita GNP had passed the \$10,000 (£6,560) milestone for the

Most economists predicted a GNP growth rate of more than 9 per cent, but performance weakened in the fourth quarter as consumer confidence was affected by political scandals. Gross domestic product, the measure of economic growth preferred by the Korean government, grew by 9 per cent. Last year's GDP growth, the highest since 1991 at 9.1 per

cent, reflected brisk exports because of a weak Korean currency and heavy industrial investments. Exports rose by 24.1 per cent, while todustrial investments increased by 15.9 per cent. Private consumption climbed by 7.9 per cent. But slow GNP growth in fourth quarter at 6.6 per cent, against 9.7 per cent in the third, has raised concerns that the economy may be heading for a sharp downturn. John Burton, Seoul

Taiwanese fear for economy

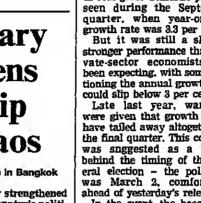
Taiwanese industrial production and export orders held up well last month, but officials warned that tension with China might be putting a new brake on the already slowing Economics Ministry figures showed industrial output grew

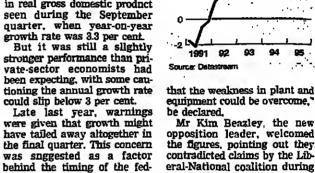
3.14 per cent in February from a year earlier. This was an increase on January's rate of 2.86 per cent. Year-on-year growth in foreign orders for Taiwan goods rose 16.16 per cent. A Finance Ministry poll of exporting companies showed more than 16 per cent believe their business has been hit by the Taiwan-China crisis.

China, meanwhile, hailed the successful end of a first round of live-fire military exercises in the Taiwan Strait, and army strategists were quoted as saying Chinese troops could sweep into Taiwan in hours. In Washington US officials said the administration had agreed to sell shoulder-fired Stinger anti-aircraft missiles to Taiwan as part of a package of new Reuter, Taipei and Beijing

UN food relief ship sinks

A ship chartered by the United Nations World Food Programme has sunk during a voyage delivering rice to North Korea. The Chinese-registered freighter went down in the Taiwan Strait with the loss of 15 crew. The strait, scene of military exercises by China, has been hit by storms this week. The WFP said that according to its agents a further nine were rescued. It was to have been the organisation's second shipment of rice to North Korea, where severe floods last year. exacerbated food shortages. The cargo - donated by the US. Switzerland and Austria - was fully insured and another larger shipment of 8,200 tonnes would leave Bangkok for the port of Nampo shortly, the WFP added. Foreign Staff, London





Mr Kim Beazley, the new opposition leader, welcomed the figures, pointing out they contradicted claims by the Liberal-National coalition during the election campaign that eco-nomic growth had halted. Recent budget forecasts by

1991 92 93

GDP (angual % change)

the treasury, which suggested an underlying deficit (before asset sale proceeds) of & A\$7.64bn (£3.9bn) to 1996-97. may have been over-pessimistic, be added.

The projections were based on a growth rate of 3.25 per cent for the next financial

The continuing moderate growth demonstrated by yes-terday's figures was thought likely to rule out any change in official interest rates for several months. Both the foreign exchange and bond markets took the news calmly, with 10year bond yields virtually imchanged.

port

Cambodian casino plan fails to come up trumps

Ted Bardacke reports on problems of a Malaysian company in developing Sihanoukville into a resort

ben the Cambodian surveyors was chased off the government chose a little known Malay from the Cambodian Civil Avisian company to develop its shuwcase foreign investment project, a \$1.3bn i£853ml airport-hotel-casino develonment in the southern port city of Sihanoukville, critics pounced.

Kuala Lumpur-based Ariston, they claimed, was interested primarily in the lucrative casino monopoly included in the deal and had neither the financial might nor the experience to push the project through to completion.

More than a year after the contract signing was witnessed by Prince Norodom Ranariddh and Mr Hun Sen, Cambodia's ation Authurity who were

demanding bribes. These delays are costly. The \$1.3bn investment is more than half the total foreign commitments approved by the Cambodian government since United Nations sponsored elections in 1993. And when a privileged Malaysian company - Malaysia is the largest foreign investor in Cambodia - encounters problems, it lends credence to

The relationship between Ariston and the tourism

But the relationship between Ariston and the tourism ministry, which conceived the project and has overall responsibility for it, is "really, really bad", according to one ministry offi-This aptagonism stems from

the ministry's private objection Ariston baving being selected by an intra-ministerial committee as project devel-oper. While tourism ministry officials claim they wanted to go with a "more established" company, two members of this committee say they were overwbelmed by the up-front



NEWS: WORLD TRADE

wth slows Storm over video disc launch date

SEA CONTRACTOR MARCHAIN

Lustralia

electronics and entertainment industries are at loggerheads over delays in Hollywood's plans to launch movie software for the new genera-tion of digital video disc (DVD)

Electronics companies bope the new DVD entertainment systems will be used for watching high quality films and listening to music, and will revi-talise the singgish market as the andio CD and video cassettes did in the 1980s.

However, the success of the new system will depend on the availability of entertainment software, chiefly films, which will not only achieve superior visual quality to video cassettes but will also offer higher quality sound than audio CDs.

The Hollywood film studios were initially enthusiastic about the prospects for the new discs. They hope that DVD will create a lucrative new software market as the difference in quality may persuade con-sumers to buy their favourite films on discs, rather than renting them on video.

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Korean GNP

ons by 8.7%

But some electronics companies are now concerned that the Hollywood studios may not release enough films on DVD in time for the proposed launch of the players this

Mr Jan Oosterveld, president of the key modules divison of Philips, the Dutch consumer electronics company, said the their mod studios were sending out "conin Japan.

fusing signals" about the num-ber of films they were willing to put out on DVD and the

timing of the releases. Similarly, the studios are asking for DVD players and software to be produced in eight versions, each for a different part of the world, making it impossible for consumers to play a disc manufactured for one region, such as the US, in

another region.
This system would suit the current Hollywood release schedule whereby the studios stagger the introduction of films on video in different parts of the world, usually starting in the US and then moving through Asia to Europe. It would also help them maintain price differentials in different markets.

Mr Oosterveld said Philips was opposed to a regional coding system as it would cause "total turmoil" in the marketplace. "We have a single stan-dard for audio CDs worldwide, so why not DVD?" he said. "If I huy a book in New York, I expect to be able to read it in London.

At present Philips still bopes to launch its first DVD entertainment systems in the US by early 1997, but Mr Oosterveld said the company would need to be sure that the entertainment software issues bad been resolved before it took a decision on the launch date.

Sony and Matsushita yesterday confirmed they will launch their models this year, starting

WORLD TRADE NEWS DIGEST

Tirana airport finance agreed

Germany is to finance the DM50m (\$33.7m) modernisation of Albania's only international airport, the antiquated Rinas

The financing agreement for one of the most significant development projects in Albania since the collapse of communism five years ago, was signed yesterday by Mr Carl-Dieter Spranger, German minister for economic

co-operation and development. The project has been delayed for more than two years by Albania's unwillingness to accept the terms for commercial project finance negotiated with a consortium comprising Berliner Bank, Kreditanstalt für Wiederaufbau, the German state-owned development bank, and Hermes, the German export credit agency.

The offer of development aid follows a visit late last year t Bonn by Albanian President Sali Berisha. Albania is to receive a 40-year loan with an interest rate of 0.75 per cent.

The airport contract was awarded over two years ago to a consortium led by Siemens, the German electrical engineering group. Civil engineering work will be carried out by Walter Bau, the second largest German construction group.

Siemens said yesterday that work would begin immediately on renovating the runways and aprons.

Airfield lighting and navigation systems will be installed to meet international safety standards. There will also be new meteorological equipment as well as communications and

Air traffic to Tirana has increased rapidly, but the facilities at Rinas are inadequate to cope with the influx of naw airlines and rising passenger numbers, which have jumped from 30,000 in 1990 to around 200,000 last year.

The existing airport was built to a Russian design in 1957. Kevin Done, East Europe Correspondent

Chinese seek turbine bids

China is to invite bids from foreign companies for 26 turbine generators with a capacity of 700MW for the Three Gorges dam project. A tender for the first 12 generators is to be held in the second quarter of the year, but no bid dates have been announced for the remaining 14.

According to Xinhua news agency, more than 10 companies including South Korean, Japanese, Russian, German and US groups have expressed interest. The generators are expected to

go into operation in 2003. Construction of the world's biggest dam, costing 146.8bn yuan (\$17.7bn) from 1993 to 2003. officially began in December 1993. Tony Walker, Beijing

China tops dispute league

China had more trade and investment disputes between its companies and foreigners than any other country in 1995 because of its poor legal system and ineffective government supervision, Shanghai's Business News reported yesterday. The China International Economic and Trade Arbitration Commission handled 902 disputes involving 45 countries last year, more than any other arbitration body in the world, tha newspaper said.

Zhu Jianlin, the commission's secretary general, said the 1935 figure compared with 829 disputes in 1994 and more than 400 in 1993. Some cases involved more than 100m yuan (\$12m)

with the biggest worth Y5.7bn (\$53.7m). The Business News said there were disputes with Nigeria. Brazil and Israel for tha first time. Zhu said disputes involving foreign trade accounted for 30 to 40 per cent of the total and disputes involving Sino-foreign joint vectures about 20 per cent. The rest concerned machinery imports, property,
Reuter. Sho securities and technology transfers.

Open skies talks planned

Australia and New Zealand are to re-open negotiations on an "open skies" agreement. Plans for such an agreement were abruptly aborted in late-1994, when Australia unilaterally denied Air New Zealand the right to fly domestic Australian

The Australian government cited disputes on customs and visa arrangements, but many observers believed that the real aim was to protect Qantas, the Australian airline, in the run up to its privatisation.

Australia and New Zealand have had a free trade agreement for manufactured goods and most services since 1990, but progress on furthering this - through harmonisation of standards, customs procedures and other measures - has seemed to lose momentum in recent years. Nikki Tait. Sydney

Qatar finally catches the train as gas exporter The Gulf state is poised to be a leading Middle East supplier, writes Robin Allen

Gulf gas: Qatar joins the big league the discovery of the North Field, possibly the world's largest single reser-

voir of natural gas, the Gulf oil

state of Qatar is poised to become one of the Muldle

East's leading gas exporters.

Barring further delays. Qatar

Liquefied Gas Company (Qutar-

gas), will become operational

next October and make its first

shipments of liquefied natural

gas (LNG) to Japan oext Janu-

ary 1. It is a joint venture owned 65 per cent by Qatar Ganeral Petroleum Corporation

(QGPC) and 10 per cent each by Mobil of the US and

France's Total, with Japanese

trading houses Marubeni and Mitsui holding 7.5 per cent

Qatar's refusal to provide a

sovereign guarantee for inter-national bank and European

export credit agency financing

has meant loug delays in final-

ising a \$700m loan for the upstream work. Officials hope

agreement will be reached by

The entire Oatargas project

upstream, liquefaction and

shipping - comprising three

"trains" of 2m tunnes per year

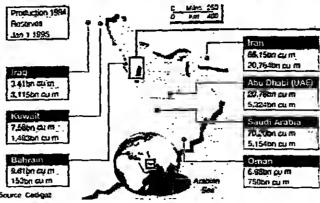
(that of LNG each, will cost

\$6bn-\$7bn including construc-

The first two trains, so called

the end of this month.

tion of the tankers.



because each has its own series of pipelines, machinery and storage elements, will cost some \$4bb.

The output will go to Chubu Electric Power Company, with seven Japanese power utilities taking the 2m tha third train starting in 1998. The \$2bn downstream financ-

ing, provided by Japan's Eximbank and four commercial banks, proved less contentious because, unlike the upstream portion where there is no collateral, the Japanese have ensured supplies of gas as security against the loan. The second drawdown on the downstream loan was made in mid-February. Repayment of three tranches in 17 semi-annual instalments starts on August 1

Pricing, according to officials, is "based on a blend of rates averaging I per cent over Libor" (London Interbank Offered Rate.)

Qatargas is the most advanced of two active gas export projects. The second is the Sibn Ras Laffan Liquefied Natural Gas Company (Rasgas), a 70/30 joint venture between QGPC and Mobil. South Korea has signed up for one 26m tpa train, but Rasgas

needs at least one more buver for the second 24m tpa train to make it viable. South Korea, Turkey, Thailand and Taiwan bave all been approached. QGPC is due to award the \$2bn

engineering, procurement and construction (epc) contracts

this month. Developing Qatargas and Rasgas will cost the govern-ment some \$10bn. Industry sources say that "even with regular re-working of the cash projections, the net pay-back time for the government will not come until 2004".

Qatari officials are, however, looking on the bright side. gravity for gas supplies from the Middle East," said Mr said Mr Abdul Redha Abdul Rahman Qatargas general manager. He added, with an eye on the country which is the region's real gas power base: "Iran's

economy is is too sbaky; they will need 10 years to recover." Relative to its neighbours. Qatar is Indeed fortunate. Already rich from daily oil production of 378,000 barrels capacity is 415,000 b/d and rising - Qatar has total proven gas reserves of well over 300,000bn cubic feet with probable reserves more than double that. Only Russia and Iran have greater quantities. Indus-try experts say Qatar's proven reserves make up about 5 per cent of total proven global

But Qatar, under its previous ruler Sbeikh Kahlifa, missed out on the first generation of gas development and axports. By contrast, Abu Dbabi has beaten Qatar in selling gas to Europe as well as to Japan, As early as 1977, Abu Dhabi was using its own funds to develop and LNG to Japan while around the same time Saudi Arabia was investing billioos of dollars in its Master Gas System. Both states were

exploiting their gas reserves

*Qatar is the future centre of long before Qatar had accepted gravity for gas supplies from it could not survive for ever on oil revenues.

Qatar is fortunate in that. unlike its neighbours, it bas a small population, some 550,000. and small domestic gas needs relative to its resources. This allows fur the growing demand for gas as feedstock and power at the country's industrial zone

in Umm Said. Both Abu Dhabi and Saudi Arabia, on the other hand, are hindered from making natural gas exports on the scale of Qatar's by their rising domes tic needs. Lack of investment funds and limited gas reserves keep Yemen in the second division of potential gas exporters. However. Oman is emerging as a more significant LNG long-term supply contracts

with Asian power unlities. Oman LNG Company, a joint venture between Oman and several foreign oil companies, bas recently reached agreements with South Korean and That companies for the supply of up to 6m tonnes a year of

The deals are the green light for a \$6bn gas project which is set to add 20 per cent to the country's \$5bn a year export earnings from its sizeable, but ageing, oilfields.

MORE FLIGHTS TO MORE CITIES IN ASIA.



*Destinations served by Silk.hr. a subodiary of Singapore Ardines.

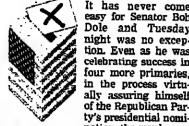
We fly 42 times weekly from Europe to Singapore Changi, the world's best airport, connecting with over 400 flights to Asia, Australia and New Zealand. Always aboard the most modern fleet with inflight A great way to fly
SINGAPORE AIRLINES service even other airlines talk about.

Californian

utilities move

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Perot rains on Dole's victory parade



Dole and Tuesday night was no exception. Even as he was celebrating success in four more primaries, in the process virtually assuring himself of the Republican Party's presidential nomi-US ELECTIONS nation, the word came out of Texas that Mr Ross Perot was raining on his victory

parade. The majority leader, in a late night TV interview, freely acknowledged he was disturbed at the prospect that the electronics billionaire would run again. as he did in 1992, when he took 19 per cent of the popular vote. "It does concern me. He helps Bill Clinton," Mr Dole said, "and he's got a lot of money,

Mr Perot, notoriously difficult to read, has blown hot and cold for months ahout entering this year's race, but his remarks on Tuesday to a San Antonio radio station were definitely on the warm aide of the divide He said he would "do whatever it takes to put our country's house in order." If his own largely self-financed Reform Party, already on the November ballot in five states and petition-ing to get on all 50, asked him to be its presidential candidate, "I would give it everything I have," be said, Certainly his party answers to no other man. Mr Dole countered by say-



Victory celebration: Bob Dole and his wife after this week's clean sweep

ing Republicans had now adopted many of Mr Perot's positions, from balancing the hudget to lobhying reform, "I would say, Ross, what else do you want? If you want a reform party, you've got it."

Though Mr Buchanan saw bis

campaign for the Republican presidential munication all but end

this week, he celebrated his strong

sbnwing in Macomb. He said be

planned to speak for the voters of

Macomb and other swing vnters at

the Republican party's summer

Yesterday, Mr Pat Buchanan, who got a better-than-expected third of the vote in the Michigan and Wisconsin primaries, again warned that the

even in Macomb County. Senator Bob

Onle, the presumptive numinee, scored 45 per cent of the vote in this

blne-collar suburh of Detroit, hut Mr

Buchanan finished close behind with

Statewide Michigan exit polls showed that balf those who voted for

Swing voters fail to give Buchanan big enough lift

conservative pundit said "if we don't get them back, we lose." A political marriage between Mr Perot and Mr Buchanan looks improbable, given their differences on so

"Independents." a class

of voter strongly represented in

they had chosen independent

But 43 per cent said they had voted for President Bill Clinton, making Mr

candidate Mr Ross Perot in 1992.

Over half of his supporters said

Macomb.

1992 the Perot vote was drawn equally from Republicans and Democrats, but. as Mr Dole acknowledged, the Texan's strength now lies clearly more on the right than the left.

There were other concerns under-neath Mr Dole's Tuesday sweep of the midwest, beyond the fact that Mr Buchanan did better than the 25 per cent he won in Michigan in 1992 in his fight against President George Bush. Exit polls in Ohio, Michigan and Illinois showed about 40 per cent of Republican voters believing that Mr Dole had no new ideas. A similar percentage thought he would lose to centage thought be would lose to President Bill Clinton in November. Voter turnout in all four states was very light, in some states little more than 10 per cent.

Nor did the exit polls find any consensus as to who the majority leader should choose as a vice presidential running mate. Ohio preferred retired General Colin Powell, whereas Michigan opted for its own Governor, John Engler. In Illinois and Wisconsin, Gen Powell, who insists he is not available, and the two popular state gover-nors, Messrs Jim Edgar and Tommy Thompson, ran about even.

Mr Dole did not formally claim the more than the 996 needed, others a majority leader still nominally assigned to their first choices. But victory in California next Tuesday, with 165 delegates at stake, should

Reagan Democrats, hine-collar voters who bave ahandoned the Democratic

party in the past to vote for a

The support of such swing voters is viewed as being crucial to being able to seeme victory in the US presidential election in November.

nomination because precise delegate counts vary. Some tallies give him handful short, with delegates won hy ex-candidates who have endorsed the

ity, and Pacific Gas & Electric, accounting for 12 per cent, will dispose of plant with annual sales of some \$3bn (£1.9bn) at today's prices. The power sta-tions involved - nuclear and bydroelectric are excluded generate about 15 per cent of California's electricity. The disposals, precursors of wider restructuring involv-

California's two top electricity utilities plan to spin off or sell to outsiders about half their

fossil fuel generating capacity in a move towards deregu-lation of the US power indus-

try and lower prices for con-

Southern California Edison,

which produces more than a

quarter of the state's electric-

ing the industry's number three, San Diego Gas & Elec-tric, and the bandful of smaller generators, signal the first material changes this century in the US electricity industry. which is dominated by regional

California, where electricity prices are about 50 per cent higher than the US average, has led the drive to market liberalisation demanded by federal legislation passed in 1992.

Urged on by a government eager to sharpen the state's competitive edge, the Power responsible for the orderly introduction of free market conditions, has set a tight timeable under which industrial nsers will be able to buy power at open market rates in 1998 and consumers will be able to shop for best buys by 2003.

Edison has already promised to reduce household prices by 25 per cent on the first day of the new century. California's progress is being keenly watched in other states, which responded favourably to last December's first step: the creinto which generators will sell electricity and establishment of an independent distribution

ompany. The distributor, which will lease power-line capacity from plies on an hour-by-hour basis from the lowest-cost producer. San Diego Gas & Electric, sit-

uated close to the Mexican border, is expected to try to gain market advantage through cheap electricity imports likely to be diluted as other US states deregulate and interstate trade expands. Edison, which said it was disposing of its capacity "reinctantly", added it expected to complete the sales or spin-offs by the end of next year. Target date for Pacific was 2003, the deadline for complete market

deregulation. It was not clear much the utilities expected to earn from assets with an estimated book value of \$1.5bn.

Under a compromise deal protecting the generators' ity - judged uneconomic in free market conditions - and compensating them for statutory obligations to use and research alternative power sources, consumers will be required to pay a special sup-plement to monthly accounts

appear to have voted strongly for Mr Pat Buchanan, the conservative commentator, in Tuesday's primary arrested

By Patti Waldmeir In Washington

Swing vnters in the Industrial

Michigan suburb of Macomb County,

the so-called Reagan Democrats,

by FBI Signet Banking, NationsBank and a number of other banks may have been duped out of tens of millions of dollars in fraudulent loans by two people who claimed to be employees of Philip Morris, US officials said, AP reports from Rich-

mond. Virginia. Signet first disclosed on Tuesday that it bad apparently lost \$81m in the scheme NationsBank said yesterday it could lose up to \$60m, depend ing on recoveries by authori-ties, but that it had adequate reserves to cover its exposure

in the case. According to an FBI affidavit, Signet, NationsBank and other banking companies including CoreStates, Bank of Montreal Hitachi American Credit, Credit Ansialdt and Long Term Credit Bank of Japan approved loans totalling

FBI agents arrested Mr Edward J. Reiners and Ms Judy Rose Bachiman in Rye Brook, New York, on bank fraud charges on Tuesday in connection with the case, said Mr Robert W. daspen, an assistant US attorney in Richmond. Mr Reiners, 51, and Ms Bach-iman, 35, could face up to 30

years in prison and a \$1m fine if they are convicted of the charges, Mr Jaspon said. Mr Remers is a former Philip

Morris employee and bad done officials involved to the allowed scam when he was with the coniuany.

Signel was willing to participale in only \$51m worth of loans and offered the other financial institutions the opportunity to pick up the rest. The loans were granted to finance supposed computer

equipment leases through a Richmond computer leasing firm, according to a statement The banks believed the computers were going to be used by Philip Morris for research. the statement said.
The FBl said the accused

used Philip Morris stationery and posed as company officials when applying for the loans. Both appeared on Tuesday before a US magistrate in the Southern District of New York.

Signet said it was "assessing the potential for loss under its \$81m exposure." Signet is an Slibn banking company with offices in Virginia, Maryland and the District of Columbia.

NationsBank, a \$187bn banking industry giant based in Charlotte, North Carolina, said it had discovered apparently fraudulent documents on Friday, investigated over the weekend and referred the case to the FBI on Sunday.

fraud duo retail sales

The US commerce department yesterday said American consumers returned to car show rooms last month, boosting motor sales by 2 per cent and helping lift overall retail sales by 0.8 per cent. The figures signalled continued moderate growth in the US economy.

Although the figures were seen by analysts as proof that US customers were shopping again, after staying home during January's blizzards, Wall Street expected more. "This report does not change

Morgan said in Its Data Watch update. "But it is a reminder that not all the numbers are going to surprise on the upside, and conditions for the consumer are still mixed." EcoFax, the forecast unit of Deutsche Morgan Grenfell/CJ Lawrence, an investment bank, said the data for the first two

months of the first quarter suggested that real spending on goods is increasing almost twice as fast as in the fourtb

quarter last year. However, its currency model is still predict-

ing softer consumer spending. In February new car sales, which comprise about onequarter of total retail sales, were their strongest in six months. Sales of durable goods rebounded by 1.4 per cent. The department also revised January's 0.3 per cent drop in sales to a 0.1 per cent decline.

Sales by general merchandise stores rose by 2.3 per cent, the strongest pace in more than a year. But food store sales declined by 0.8 per cent and furniture and appliances, up 0.3 per cent, the impression that the econwere relatively weak. omy is on the rise again," JP

Recent US government

indicators generally have aignalled good news for the economy. Wholesale prices. down in February for the first time since last June, hinted at subdued inflation. The unemployment rate dropped from 5.8 to 5.5 per cent, the strongest monthly showing in 13 years. New home sales last month rose by 3 per cent, their highest rate in more than a

US bank | Cars help boost | Bill sent to privatise Mexican pensions

The Mexican government bill to privatise the state-run pension aystem, a reform which promises to be one of the central legacies of President Ernesto Zedillo's administration.

The bill paves the way for the creation of individual capital accounts for each worker, which are to be managed by private pension fund management companies. The government hopes Congress will approve the law by the end of

Mr Buchanan called themselves Buchanan the clear choice of the

The privatisation of Mexico's pension fund administration yesterday sent to Congress a social security system is largely modelled on Chile's 15year-old private pension funds, although the competing and vociferous lobbies of Mexico's financial groups on the one hand, and social security labour unions nn the other, have forced the government to grant significant concessions

to both. Unlike Chile, where banks were barred from the pension fund business, Mexico's financial groups - including banks, can lahour unions, bowever, Mexico's National Social Secu-

rity Institute (IMSS), which

currently pools the savings of 9m affiliates, will also be allowed to set up its own pension fund administration com-

Foreign ownership of private pension funds will be permit-ted under the rules of the North American Free Trade Agreement, which groups together Canada, Mexico and

to be up and running by mid-ance companies - will be American fund administrators 1997. allowed to set up their own will be allowed to set up in will be allowed to set np in pension fund administration dexico as long as they possess companies. To appease Meximal matter an affiliate in one of Nafta's member countries.

The government and employers will continue to make contributions to the retirement scheme of each individual. unlike Chile where contributions are deducted solely from workers' salaries. . .

Mr Zedillo hopes the privatisation of the social security system will help boost the country's dismal domestic savings rate, thereby reducing Mexico's over-dependence on

April to allow the new system brokerage houses and insure the US. European or Latin foreign capital flows to finance economic development.

Chilean pension funds manproduct, and are commonly credited with playing a central role in more than doubling domestic savings over the past a 15 years to 27 per cent of GDP. which in turn has delivered one of the fastest growth rates in Latin America.

By contrast, Mexico's domestic savings rate fell below 16 per cent of GDP last year, a level considered too low to spearhead significant economic

Cavallo acts to boost Argentine economy

By David Pilling in Buenos

Mr Domingo Cavallo. Argentina's economy minister, vesterday announced several measures aimed at lowering interest rates and encouraging consumer spending, following pressure to spark the stagnant economy into life.

The measures, which could cnt interest rates by 2.5 per cent, were not interventionist, but showed the "government was committed to maintaining and deepening [free-market] reforms," he said.
They included scrapping a 2

per cent tax on bank income. and halving value-added tax levied on fees associated with consumer loans. VAT on firsttime house sales would also be halved to 10.5 per cent. The package "would significantly cut the cost of credit to families" and produce a "big reactivating effect".

Mr Cavallo repeated his conviction gross domestic product would grow by 5 per cent this year, despite indications the economy had contracted for

the fourth consecutive quarter in the first period of 1996. Growth would thereafter be "strongly positive," especially in the second half, he said. The Broda economic consultancy recently revised down lts 1996

growth forecast to 2 per cent. Yesterday's measures follow attacks on economic policy by unions, the Catholic church and some business leaders. All have complained at Mr Cavallo's apparent impotence in tackling recession and unem-

ployment. Union leaders said yesterday they had suspended a general strike planned for 26 March after reaching agreement with the government on a "social truce". This would give unions an advisory role in economic decision-making and put a six-month halt to public-sector job cuts, they said. Mr Cavallo denied there had been any such "social truce," saying the strike had been lifted because

of lack of support. Mr Cavallo, who has endured a withering of his ministerial responsibilities in recent weeks, yesterday dodged ques-

ing weight to suggestions that he has agreed to adopt a more technocratic role. Asked about details of plans to alim the state bureaucracy - once said this reform was being handled by Mr Eduardo Bauzá, the cabinet chief whose power has grown at Mr Cavallo's expense. Referring to his clash last week with President Carlos Menem over plans to negotiate economic policy with unions, Mr Cavallo denied there was a

Bail-out revives doubts over Brazilian banks.

Losses at government-controlled Banco do Brasil raise questions about political interference, reports Angust Foster

n the words of its own advertisements yesterday, the "moment of truth has arrived" for Banco do Brasil.

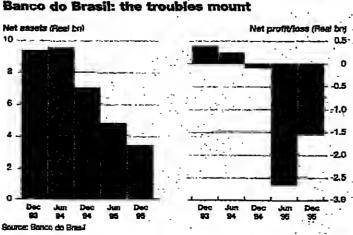
Latin America's biggest bank, which is 51 per cent controlled by Brazil's government, had just announced the largest loss in its history and a capital injection of R\$8bn (US\$8.2bn) to bail out its balance

For Brazil's banking system, and for the government, the moment of truth was a painful one. The bank's losses, although expected, cast more doubt on the resilience of Brazilian banks now profits from inflation have fallen, while bailing out the bank will further strain the govern-

ment's budget deficit. Brazil's banking system has been in trouble since 1994, when a sharp fall in inflation closed the tap on many banks' main source of profits. Two of the country's 10 largest banks have since hit liquidity crises. and Banco do Brasil is the third big. state-owned bank to face an expen-

sive restructuring. Banco Nacional, a large private sector bank taken over by a rival. added to the worries when a multibillion dollar fraud was unearthed in its accounts earlier this year.

Banco do Brasil, which is a hybrid between a commercial and development bank, has also suffered because of its political importance. ment to such controversial measures



The bank has been used by successive governments to provide credit to bad-risk public sector companies. and subsidised credit to farmers. Its 3,000 branches are spread around the country often for political motives and sacking staff is difficult because

of political opposition. Critics say the doubts about Bra-zil's banking system will not be resolved until this political interference is outlawed. But President Fernando Henrique

Cardoso bas shown little commit-

and the government insisted yesterday it would not let its shareholding in Banco do Brasil fall. "There's no point in talking about privatisation if the bank is not in a good condition," said Mr Pedro Parente, a

finance ministry official Most analysts agree that Banco do Brasil is far too important for the government to allow it to fail. The country's largest private sector banks. like Bradesco and Itaû, are also seen as strong bulwarks against

a systemic crisis. But until structural problems at

Banco do Brasil 1808: Founded as a central bank,

the fourth in the world to issue national currency.

• 1964: Central banking functions

handed to Banco Central, Banco do Brasll continues role as development bank and government agent in overseas transactions. 1986: Expands into investment

banking, and consumer credit. • 1994: Brazil's new Real currency hrings inflation down sharply, spelling trouble for bank profits 1996: Bank announces first loss since 1964 switch, and one of largest in Brazilian history. Restructuring programme and R\$8bn capital injec-

tion announced.

banks such as Banco do Brasil are resolved, doubts about the whole banking system will continue. The uncertainty could also spill over into the wider economy if banks tighten credit, thereby frustrating the government's hopes of strong economic

New management at the Banco do Brasil, which took over last year, has been making some progress to A voluntary redundancy pro-

gramme has reduced staff levels by

growth in the second half of the

plan announced yesterday will intro-duce other important changes. The hank's credit policies, whose slackness led to bad debt provisions of R\$3.77bn last year, are to be over-

25,000 to 94,000. The restructuring

Credit decisions will be taken by committees rather than individuals. The bank's minority shareholders will also be given a slightly louder voice in its administrative and fiscal boards, and the hank announced plans to invest heavily in automation and technology to compete

against its more agile private sector But the bank's operating costs are still twice as high as some competitors and closing any of its 3,000 branches this year will be made difficult by political opposition ahead of October's municipal elections. As an indication of the slow pace of change, Mr Parente said the bank was likely to record a further loss in the first half of this year. The hank said losses in the first two months

alone reached R5985m. The government will have to inject R\$5.1bn as its share of the capital restructuring. It intends to meet more than half the bill by selling shares in other state companies to the bank. The direct cost to the government will therefore be only R\$2.2bn, but will add to fears that after last year's biggest budget deficit since 1989, spending controls are

personality rift.

A more immediate concern is a congressional hattle between the government and opponants, who want to set up a Senate investigation into the banking system because of the Banco Nacional fraud. The government is trying to block the inquiry getting off the ground in case it holds up other reforms in Congress.
Banco do Brasil's problems may

fortify government arguments that an investigation could undermine confidence in Brazil's financial system. The government appeared to have stalled an opposition attempt to launch the investigation's bearings last night.

Despite the government's determi-nation not to reduce its shareholding in Banco do Brasil, there is an intriguing possibility it could see its control diluted anyway. Under Brazilian law, non-voting preference shares in companies which do not pay dividends for three years earn the right to vote.

Banco do Brasil's last dividend was paid for the first half of 1994, suggesting it must return to profit by the first half of next year. One analyst said it was very unlikely the government would allow a dilution in its control, which would fall to 29 per cent if all shares bad voting

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HEA THEODEDAY MARCHING

NEWS: UK

Names' leader protests at US lawsuits

By Raiph Atkins, Insurance Correspondent

Legal action being pursued by US state securities regulators on behalf of lossmaking Lloyd's of London Names sparked an angry reaction yesterday from a leading Names'

representative in the UK. Sir David Berriman, chairman of the Association of Lloyd's Memhers, said his members were "horrified" at the possible consequences of the cases brought against Lloyd's in a number of states including California. If US

Names - individuala whose assets have traditionally supported Lloyd's - succeeded in blocking payments demanded by Lloyd's and were compensated for losses, "it could potentially pull Lloyd's down,"

Sir David said be had foxed the American Names' Associa-tion to urge that it "finds a way so that those who wish to go on underwriting can go on underwriting and those that wish to accept R&R can accept R&R". R&R is the Lloyd's reconstruction and renewal" programme, and Sir David was

speaking at an association con-ference about it. Sold, Mr Chuck Quackenhush, he believed Department of California's insurance commis-Trade and Industry approval

The US actions are proving a hig headache for Lloyd's as it seeks to implement its recovery plan by this summer. But the insurance market has won

LLOYD'S OF LONDON support from state insurance

commissioners who are coocerned about the impact on local policyholders of the securities regulators' claims that investment in Lloyd's was mis-

sloper, has warned that freezing Lloyd's assets could jeopardise the insurance of more than 19,000 businesses and leave some insurance companies technically insolvent. Together with Mr Edward Muhl, New York superinteo-

fereoce in Michigan this week-Separately, Mr Ron Sandler, Lloyd's chief executive, told

dent of insurance, Mr

Quackenhush is brief other

insurance regulators at a con-

the association conference that

Government will be seen as complacent about impact of 'mad cow disease'

was "close" for Equitas, the large reinsurance company into which Lloyd's plans to transfer billions of liabilities on policies sold before 1993 as part of its recovery plan.

Lloyd's has decided not to seek extra capital from external investors to boost Equitas' claims reserves as part of its application to the Department of Trade and industry. A decision has yet to be taken on whether extra funds might be sought separately to bolster the solvency of Equitas.

Lloyd's is expected to receive a further boost next week with the publication of a Names' "validation" report on its recovery plan, compiled with the UK law firm Slaughter and May. This is expected to sup-

port the thrust of the plan. Sir David, who is part of the validation group, told the conference that if Equitas ever became insolvent, it was likely a deal would be struck with creditors - the policybolders so that they received a proportion of their claims. There would be no need to pursue extra funds from Names.

yer, director of West Devon

Meat, a west of England abat-toir. Beef sales had only just

begun to recover from the pre-

vious BSE scare just before

Christmas when consumption

dropped 20 per cent. In the

month up to March 10, they

were 13 per cent helow the

same period last year, at about

Cattle prices had started to

recover from a 15 per cent to 20 per cent drop in December.

"Now I'm expecting to see £80 wiped off an animal that would

usually sell for around £840,"

The National Farmers' Union

of England and Wales and the

Meat and Livestock Commis-

sion, the meat industry's pro-

motional body, yesterday tried

to limit the damage to husiness

by stressing that the govern-ment had not changed its

advice on eating beef. The

MLC pointed out that the lat-

est cases of CJD were among

those eating beef before con-

But with retail sales of beef

at about £4bn and almost half

of all UK farmers earning some

income from cattle, the indus-

try fears it could be devas-

The Consumers' Association

said the public remained to be

convinced that beef is safe.

"Consumers want - and need - to know if they should eat it.

No one knows if it is safe. We

need more information to cut

through the confusion," said

trols were tightened in 1989.

20,000 tonnes.

said Mr Wood.

UK NEWS DIGEST

Watchdog angers telecoms giant

Mr Don Cruickshank, the telecoms watchdog, angered British Telecommunications and shocked the City of London by linking consultation on new pricing proposals to fair trading provisions that the company has repeatedly said are unaccept able. The result is likely to be that, when Mr Cruickshank makes his decision on pricing and fair trading later this year, BT will reject both. Mr Cruickshank will then be forced to take the issues to the Monopolles and Mergers Commission for adindication.

The pricing proposals, through which residential customers would save £20 (\$30.60) on a £50 quarterly hill by 2001, were the latest stage in a consultative process through which Mr Cruickshank is attempting to set controls on BT's prices after the present regulatory regime ends in 1997. As a former state monopoly, BT's charges in areas where competition is weak or absent are controlled by a cap or formula, the rate of inflation minus X percentage points, which is currently inflation minus 7.5. With today's low inflation, BT is forced to cut prices to meet its obligations under the cap.

Mr Cruickshank indicated that services to be included and the value of X would be broadly similar to the existing cap. He also intended to package the pricing review with his desire to write a new condition in BT's licence giving him broad powers to identify, arrest and punish anticompetitive behaviour. He could not, be said, put a pricing regime to benefit consumers in place without the teeth to back it up. BT said it was very disappointed; the existing regime was extremely tough. Mr James Golob, telecoms analyst with Deutsche Morgan Grenfell, said: "This is hard hitting stuff. The two sides started a mile apart. Oftel has moved closer in inches rather than feet."

Alan Cane, Industry Staff Editorial Comment, Page 11; Lex. Page 12

Car production rises

Output of cars in the UK continues to rise steadily, with an increase of 5.4 per cent to 138.874 last month compared with February 1995. The latest figures mean that production in the first two months of this year, at 274,191, is running more than 9 per cent above the equivalent period of 1995. Ootput for export continued to climb, with a 6.5 per cent rise to 74.424 as result of higher sales outside Britain by BMW's Rover offshoot and by the three Japanese carmakers in the UK. The policy by Ford and General Motors of exporting UK-built cars also helped. Haig Simonian, Motor Industry Correspondent

State borrowing is eased



Government projections for public borrowing in the current financial year would have been £1.2bn (\$1.8bn) higher than stated had it not been for one-off receipts from the National Lottery, the Treasury has revealed. Amid con-cern among City analysts about the government's ability to meet fiscal targets, Treasury THE NATIONAL ministers have indicated that the public sector

borrowing requirement for 1995-96 would have been £30.2bn had it not been for unusual cash flows created by the operation of the lottery. This contrasts with the £29bn for this year's PSBR given by the government in its Budget. The Treasury pointed out last week that the government

had received a total of £1.973bn in duties and income from the National Lottery Distribution Fund in the first 11 months of 1995-96. Some £123m of that had been spent on reallocating cash in prizes and grants. The gross impact of the lottery oo the PSBR over the 11 months had therefore been to reduce the total by £1.845bn. But this figure needs to be offset by expectations that the Treesury will receive less money in indirect taxes because people bny lottery tickets rather than taxable goods. It is understood that displacement of indirect taxes amounted to about £600m this financial year. James Blitz and Gillian Tett, London

The UK has become the second largest lottery scratchcard market in the world - one year after the launch of National Lottery Instants. In a year's scratching, more than 1.6bn tickets have been sold, raising more than \$600m for the five causes that benefit from the lottery. Only France has a larger scratchcard market - \$3.28bn compared with the UK figure of \$2.12bn. Camelot, the operator of the UK National Lottery, said Instants were now the UK's higgest impulse huy, more than threa times higger than Coca Cola. Sales have however declined sharply since Instants were introduced. Raymond Snoddy, Consumer Industries Staff

Controversial plans by National Power, the former stateowned electricity generator, to convert a power station in west Wales to burn orimulsion should get a fair hearing, unprejudiced by the Sea Empress oil spillage off the Welsh coast, said the Confederation of British Industry in Wales. National Power intends to import orimulsion by tanker from Venezuela to the power station on the Milford Haven waterway where the spillage occurred. Environmentalists, who describe the bitumen-based orimulsion as a "dirty fuel", objected to the project before the Sea Empress accident and have since expressed alarm at the pollution risks of a similar spillage. Roland Adburgham, Cardiff

Jury out in Polly Peck trial

The jury in the trial in London of Mrs Elizabeth Forsyth, an

Deportation threat: Two men are to be deported after being found in a truck at a motorway service station in northern England after a five-day journey from Romania. The two men, aged 23 and 25, were discovered in a cargo of clothes at Birch services in Manchester. The Dutch driver knew they were on

Railway's

Financial Times Reporters in

The train company operating services in north-east England yesterday provoked criticism from Newcastle upon Tyne city officials and local husiness groups by saying it would not actively promote train travel to Euro 96 soccer matches.

East, which runs trains between the Scottish borders and, much of north-east England, said it would not be able to cope with the demand which might result. "Some train operators are actively promoting their services," said a spokesman, "We don't have that capacity." The company is one of several carved out of the national state network in

But Mr Tony Flynn, leader of Newcastle city council. condemned this response as "very negative" at a time when other organisations were striving to maximise the championship's commercial possibilities. The council is using Euro 96 as a big opportunity to promote tourism in

Miss Sue Wilson, chief executive of The Newcastle Initiative, a private sector grouping of husiness people and academics, deplored the company's attitude on Euro .96. "I'm absolutely appalled any organisation which ought to be part of it is choosing to

ignore ft." Rail Industry managers said football specials had been a very profitable sideline for the national network in the 1980s. Regional Railways NE said it d carriages where possible by altering its maintenance programme, but could not put on extra trains because it had none available. We don't carry extra stock in these days of streamlined rail-

way companies," said the com-pany, which has 200 trains. But InterCity East Coast,

North West Regional Rail-

At least 1,000 Bulgarian from Leeds-Bradford Airport,

Evidence grows of CJD link with meat

From the emergence of bovine spongiform encephalopathy -BSE or "mad cow disease" - 10 years ago until yesterday, ministers and their scientific advisers had maintained that there was no conceivable risk of humans developing Creutzfeldt-Jakob disease by eating infected meat.

The identification of a new CJD strain in young people is the strongest evidence so far that there is a link between the human and animal brain diseases - and that the government will be seen in retrospect as having been too complacent. However, the conclusion that the ten CJD victims under the age of 42 caught the disease from infected beef is not absolutely proved. Intensive research will now be required to discover whether there is a direct link

The main problem that scientists have faced from the start in predicting the course of the BSE epidemic in cattle - and its implications for farmers and consumers - is that the disease is not caused by a virus or bacterium but by a bizarre and poorly understood type of infectious agent called a prion. In the 1980s no one really

knew what a prion was. Most researchers now accept that it is an infectious protein particle which causes a slow "blochemical chain reaction"; it works by converting normal protein molecules in the brain into its own malignant form.
Unfortunately, prions are exceptionally stable molecules.

They withstand sterilising conditions that would kill any

The leading : theory for the

emergence of BSE in the 1980s was that it was a form of scrapie, a related disease of sheep, that had been passed on to cattle by the practice of incorpo-rating sheep offel in animal feed. That implied immediately that the disease could pass from one species to another, and experiments with laboratory animals have confirmed

that prions can sometimes -

hut not always - be transmitted between species. However, experts at the Ministry of Agriculture, Fisheries and Food drew comfort from the fact that people have been eating sheep for millenoia without appareotly catching CJD from scrapie. The most recent lab experiment. reported in December by Dr John Collinge and colleagues at St Mary's Hospital, London, was also reassuring. They genetically engineered

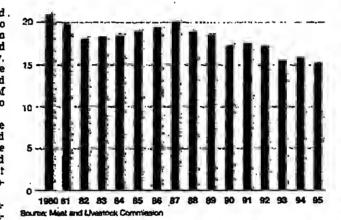
mice to he susceptible to buman CJD, injected them with BSE prions - and found that they remained bealthy. But they emphasised that the results were preliminary and should not be taken as proof that people were immune to The other kind of evidence

for a link between BSE and CID is the epidemiology: the number of young people and those associated with the meat and livestock industry developing the disease. Although the absolute numbers are very small - four teen-

agers, several people in their 20s and 30s, four farmers and an abattoir worker - they are much greater than the numbers that would be expected by chance if there were no link. CJD is an extremely rare disease - last year the UK had a total of 55 cases - and was Beef going off the menu



Seef consumption per person per year (carcase weight kg)



previously unknown in teenag-

• The meat industry was bracing itself for a deep slump in consumer demand for beef

tating effect. We're really on thin ice now," said Mr Chris Wood, a farmer in north-west "It is very worrying because

England with 85 beef cattle. yesterdsy, Dehorah Har-greaves writes. "This is a disaster. It will have a devas-industry," said Mr Peter Bow-

Ms Laura Simons at the CA. Shares in food companies were affected by the BSE scare yesterday with Kerry down 5p to 555p; Cavaghan & Grey fall-

ing 3p to 102p; Unigate down 3p to 443p; Perkins slipping 1p to 76p; and Hillsdown down 1p

member of the Commons com-

mittee, as "a leading Luddite".

Stock Exchange's proposals for

introducing order-driven trad-

ing was to argue that no

change was needed. Mr Mich-

asi Lawrence who was dis-

missed as the exchange's chief

executive in January, said that

BZW and other market-makers

had engineered a coup against

him because of their hostility

to his proposals for order-

driven trading.

BZW's initial response to the

1.6bn scratchcards sold

Power plan 'needs fair hearing'

aide of former Polly Peck chairman Mr Asil Nadir, retired yesterday to consider its verdict. Mrs Forsyth denies two charges alleging she handled almost £400,000 stolen from Polly Peck. The prosecution claims the money was routed through Swiss banks to fund Mr Nadir's private business activities. Mrs Forsyth has said the money transfers were legitimate. John Mason, Law Courts Correspondent

board only after hearing cries of "Let us out".

soccer decision sparks anger

Newcastle upon Tyne, London

Regional Railways North the run-up to privatisation.

which runs trains between London and Scotland, said it bad arranged special trains from London to Newcastle and to Leeds for Euro 96 matches by ingeling resources to make the trains available,

ways said it was "looking forward to welcoming visitors to Euro 96" and had produced a new series of Euro-Rover tickets for visitors. Mr Gheorghe Fodoreann,

managing director of the Simpa Sport travel agency in Bucharest, said the decision by Regional Railways NE would nnt make any difference because Romanian soccer fans intended to travel in England

y bus. football fans are expected to arrive in the north-east in June for matches against Romania and France. But most will travel to matches by bus said Mr Ognian Avgarski, director of Sunquest Bulgaria,

seeks to clarify joint ventures

Accountancy Correspondent

Shareholders are to get a clearer picture of a company's financial and strategic links with joint ventures and so-called associate companies under rules proposed yesterday by the Accounting Standards Board. Joint ventures, in which

companies share the risks of a short or medium-term enterprise, are increasingly popular hut are not covered by existing rules. Accounting for associate companies is an area that has

been ahused in the past. Flexible rules allowed companies to include profits from an associate in their own accounts when husiness was good but to exclude the losses when husiness slumped. Another abuse arose when, during a takeover hid, compa-

nies built up a stake beyond a

20 per cent threshold and

treated the target company as an associate. It could then include the target's profits in its own

accounts - when it could hardly claim to be an associ-Under the proposals, compa-

nies with associates - where the investing company holds a participating interest and exercises significant influence would be allowed to continue showing a proportion of the associate's profits in its own accounts. The crucial development for auditors will be the new defini-

tion of associate, which encompasses the "actual nature of the relationship", not just an arbitrary holding of the equity. Joint ventures are defined for the first time as entitles where there is joint control by contract - although that does not have to be written down. They can use the same method as associates - the so-called

"equity" method.

Accounting board | Exchange panel supports order-driven trading a central electronic system and an opposition Labour party

By George Graham, Banking Correspondent

A Loodoo Stock Exchange steering committee has recom-mended unanimously that the UK stock market should move towards the introduction of electronic order-driven trading, even though the committee was dominated by marketmakers who originally opposed the change.

Mr Dooald Brydon, deputy chief executive of BZW, the investment hanking arm of Barclays Bank and one of the largest market-makers, said extensive consultations about an initial set of proposals from the Stock Exchange had forced everyone to go away and think very hard about the

"I think we are driven to the

conclusion that there is a better way of doing it," he told the House of Commons Treasury select committee yesterday. The full Stock Exchange board will vote today on the next steps towards orderdriven trading, in which buy and sell orders are entered on

automatically executed when they match. The exchange is expected to

vote for order-matching for all

UK stocks, rather than limiting it to the shares of the largest and most liquid companies. But it is also expected to call for the introduction of the oew trading system to be phased in gradually, and for extensive

further consultation on the

detailed rules governing the

market. In addition, the exchange will make it clear that a separate system for trading large blocks of shares will coexist with the electronic order book. As in the current quotedriven system, where marketmakers list prices on screen but actually deal over the tele-

phooe, or in New York's "upstairs trading", prices would be negotiated for block The unanimous vote of the steering committee represents a sharp change in attitude for market-makers such as Mr Brydon, who was described yesterday by Ms Diane Abbott,

Mr Brydon said yesterday that he found Mr Lawrence's account of his dismissal "very difficult to reconcile with the "The suggestion that there was a marketmakers' coop is completely wrong," he said.

Mr John Kemp-Welch, the exchange's chairman, said that not a single member of tha hoard had voted against the resolution to dismiss Mr Lawrence. "It's utterly untrue that a bandful of members brought about or could have brought

By Gillian Tett and Peter Professor Patrick Minford, one Clarke's colleagues that he

Marsh in London

The government's hopes of a rapid economic rebound still ahow little sign of being realised, according to ecocomic data released yesterday. Although retail sales rose

last month, the broader con-

sumer picture remains distinctly patchy. Meanwhile, the recent gloom surrounding manufacturing appears to be deepening, rather than fading. The Engineering Employers' Federation yesterday warned that the recovery in engineering is on a "knife edge". Its quarterly survey showed orders from UK customers

were flat and output barely

increasing on three months This gloomy tone in the UK manufacturing sector has provoked growing concern at the

of the Treasury's panel of six Independent economic advis-ers or "wise men", has called on Mr Kennath Clarke, the chancellor of the exchequer, to resign. Prof Minford, a rightwing supporter of the governing Conservative party, has never hidden his criticism of Mr Clarke, and especially his cautious approach to interest

"I hope he does resign," Prof Minford said in a talk to the Birmingham Confederation of British Industry. He was referring to the belief of some of Mr

alone in the broader economy -

is proving distinctly difficult

rate reductions.

may quit rather than succumb to pressure from Mr John Major, the prime minister, to: compared with three months back a government commitment on a single currency ref-

that he could say what he liked. "There is the old Lyndon Johnson thing that you should get people inside the tent so that they can piss outside, he said. "Well I am pissing whether I am inside or

Treasury, But judging what is engineering companies showed that the balance of companies reporting an output increase. compared with the previous because manufacturing data is survey at the end of last year, patchy. The EEF a survey of was 15 percentage points, down

increasing capital spending earlier, whereas 10 per cent were cutting back. But this tone is not reflected

across manufacturing: the Cen-

tral Statistical Office yesterday

said that car production was at its highest level in February since the records began in 1977. The Chancellor of the Exchequer is convinced that consumer confidence will pick up sharply this year and the Bank of England has said it expects "the pace of output growth to recover this year, led by con-

retail sales rose a seasonally adjusted 0.5 per cent between January and February but that followed a slump in spending

Economic recovery remains patchy Growth in money three months earlier. Meanwhile only 27 per cent of businesses said they were increasing capital specific properties.

By Graham Bowley,

Growth in the money supply

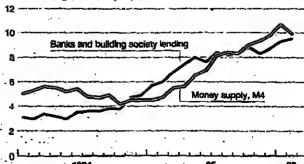
The rise in lending suggested that the economy might be strengthening as companies borrow to invest. But economists warned that companies may simply be borrowing to finance their excess stocks of The CSO said yesterday that goods which are in turn acting as a drag on growth.

The Bank of England (the

annual rate of 9.9 per cent last month, down from 10.3 per cent in January. Growth in the the money supply has accelerated rapidly since the beginning of last year to exceed the government's monitoring range of 3 per cent to 9 per

Yesterday's decline in the growth rate provided some relief for those fears, but the figures were again distorted by special factors such as government borrowing and the new gilt repo market which began in January.

Higher than usual sales by government bonds to cover the Money supply dips as lending increases



meant that banks' lending to fore included in M4, rose by money supply growth.

ued to grow, but it had less of fell by £700m to £11.9bn. the Bank of England of UK an noward effect on the money supply than in January. Gilt bonds for cash and are there-

the public sector was smaller £800m to £8.5bn last month than expected, depressing But "reverse" repos, which are in effect a collateralised loan The gilt repo market contin- and therefore hoost lending Lending by banks and build-

ing societies grew by 9.5 per the broad measure of the public sector borrowing repos, which involve selling cent in the 12 months to Febru

husiness prospects in 1,628 from 22 percentage points

erendum. Prof Minford said later he had entered the panel of ecounmic advisers nn the basis

sumer spending".

eased last mooth for the first time since last autumn, official figures showed yesterday. But lending by banks and building societies rose at its fastest rate for almost five years.

UK central bank) said that M4. amount of money circulating requirement in Fabruary

The nightmare scenario of every government censor would probably be an information network that has no physical existence, recognises no national barriers, carries text, speech and pictures, and can he accessed by almost anyone with a personal computer and telephone

This scenario describes the Internet, the worldwide network of computers that has at least 35m users some estimates are as high as 56m linked to it.

For some, the ability to contact so many people at so many locations in the world has much to commend it: "The Internet is the first medium that allows anyone with reasonably inexpensive equipment to publish to a wide audience. It is the first medium that distributes information at almost no marginal cost, according to Bili Gates, chairman of the software company Microsoft.

But for governments concerned ahout the dissemination of for instance, pornography or racist material, or which wish to control the political or religious information its citizens receive, the Net can he seen as a threat.

For this reason, governments around the world are exploring ways of policing cyberspace - the world of electronic information exchange. But how practical is this objective?
This month the Association of

South-East Asian Nations (Asean) hecame the latest group to consider plans to regulate the Net. Earlier one of its members. Singapore anoounced moves to make the country's three Internet Service Providers (ISPs), which provide computer users with an Internet link, responsible for removing "objectionable material" from Internet public forums - a form of electronic noticeboard.

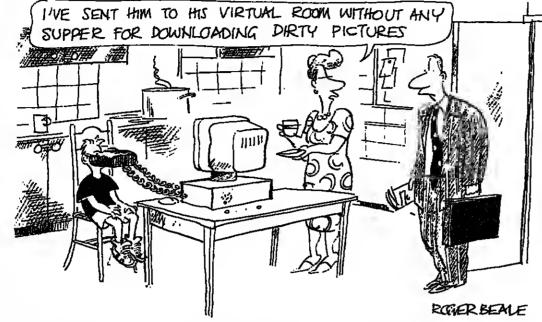
Unregulated electronic information could, says George Yeo, Singapore's information minister, "undermine our values and traditions". China has also said it wants to control the Internet.

But the nature of the Net makes any form of control very difficult at best - some would say impossible. 'Censors are used to dealing with physical things, such as books, magazines and videos, but the Internet is a non-physical world," says Jonathan Buckeley, managing director in Europe of the online service provider America Online (AOL)

The Internet grew out of a 1960s US defence project designed to enable university and government laboratory researchers to communicate. One goal was to create a multipathed computer network that rould survive even a nuclear war.

As a result, there are countless electronic pathways on the Net. If one pathway is removed, data can George Cole explores the practicalities of policing the world's biggest computer network

Censorship in cyberspace



be simply routed through another. Controlling the ISPs in one country and regulating their output does not prevent someone dialling other service providers based abroad. The only effective way of controlling Net access would be to cut off international telephone access, since this would prevent dialling to external ISPs. But this would be an unlikely option, even for an authoritarian

Regulation is also difficult because there is no central controlling body for the Net. Moreover, information on the Net Is stored on computers scattered across the world, so it can move across many national horders before it reaches the end-user.

Another problem is the vast num-ber of people with access to the Net, and the amount of information available online. There are thousands of newsgroups (discussion forums) and millions of Web pages (linked graphical pages): "We receive around 1.5 glgabytes of news data a day," says Steve Kennedy, business development manager

of Demon, the European ISP, This is equivalent to more than 1m A4 pages of typed text. "It would be impossible to look at the content of everything," adds Kennedy.

The problems of trying to control the Net were thrown into focus last January when Germany objected to a number of adult-oriented newsgroups available on CompuServe, the online service provider that has more than 4m subscribers worldwide. Around 200 undesirable newsgroups were identified.

ut there is as yet no system that can prevent newsgroups being sent to a specific coun-try. As a result, CompuServe had to stop all its subscribers receiving the newsgroups banned in Germany. This "blunderbuss" approach produced much outrage.

A number of Net control system have been devised or mooted. AOL tried special software which looked for specific words and blocked newsgroups that featured them. However, one of the taboo words, "breast", not only stopped pornographic sites but also those belong-ing to breast cancer associations. Another problem with the wordsearch system is that pornographic or political forums can easily assume seemingly innocuous titles.

A second suggestion is for Net sites to be tagged with an electronic symbol which tells parents whether a site is "child-friendly" - in the same way that many video cassettes and computer games have ratings denoting their age suitability. But even if such a system were to be devised, it would require international regulation to ensure that every Internet site complied - and even then it would be almost impossible to prevent unclassified sites

from getting on to the Internet. There are some who helieve that governments which attempt to control the Internet are like latter-day King Canutes, destined to be overcome by the tide of electronic information flowing across their borders. These critics suggest that control should be In the hands of the endusers, especially parents worried about what their children might see

Some software packages, such as Net Nanny, from the Canadian company of the same name, are

on the Net.

designed to help parents regulate their child's Internet use by blocking specific sites. However, critics suggest that as many children are more computer-literate than their parents, these packages will have a limited effect.

In February, CompuServe re-introduced almost all the blocked newsgroups and offered subscribers special software that could be used to stop specific newsgroups. The software provides users with a list of more than 6,000 sites they may wish to block.

"The introduction of parental controls lets us put the power to control and restrict content access where it belongs - with the individ-ual users," says Bob Massey, president of CompuServe. But such an approach would not be acceptable to governments wishing to control the information its citizens have

Another idea is to reverse the cur-rent trend of offering users a large number of Net sites and simply provide access to a limited number of permitted sites: "You could provide, say, a few educational or games sites and block everything else." says Andrew Burgess, product development and support manager at CompuServe UK, "hut many sites provide jumping-off points to other sites. And it wouldn't stop someone calling an Internet provider in another country. Besides, such a move would severely limit the usefulness of the Internet."

Some countries, such as the US, are using legislation to control the Net. The Communications Decency Act, passed by Congress last month makes it illegal to transmit indecent or offensive information over the Internet, with a threat of fine or imprisonment. But the new legislation is being challenged in the courts and is essentially "on hold". Meanwhile the UK's Home Office

is currently examining how the Internet can be regulated. Petra Gartzen, an industry analyst at Dataquest, says that politics and pornography are not the only reasons why governments want to control the Internet: "There are financial aspects, such as taxation, trade and gambling. Governments need to control their revenues." John Gilmore, a co-founder of the Electronic Frontier Foundation, an

organisation concerned with the social and legislative issues sur-rounding the Internet, once famously remarked that: "The Internet interprets censorship as damage, and flows around it." But despite the problems faced in trying to control the Internet, many countries will continue in their quest to tame the brave new world of the

Worth Watching · Vanessa Houlder



Lift installation costs go down

The cost of installing lifts in huildings could be cut hy as much as 15 per cent, according to Kone, the Finnish lift manufacturer. It has launched a new lift that eliminates the need for a machine room hy using a new type of hoisting machine which can be

standard lift shaft. The manufacturer says that its approach will result in energy savings, create more rentable space, improve the design of buildings and speed up the construction process. Kone Corporation: Belgium, tel

installed down the side of a

The shape of aerogels to come

3226769211; fax 3226769392

Aerogels are ultralight wisps of silica with superh insulating properties. But they have so far m unable to fulfil their promise because they are extremely bard to make.

The Lawrence Livermore National Laboratory in California has developed a simpler technique that cuts costs eight-fold and the process from more than 25 hours to one hour. The technique involves injecting a mixture of ammonia, alcohol and methoxysilane into a sealed metal mould which is beated.

The new method allows serogels to be made in precise sizes and shapes; potentially, It could allow them to be mass produced.

Lawrence Livermore National Laboratory: US, tel 510 4233107; fax 4238988.

On the mend with 'superglue for skin'

A "superglue for skin" has been developed which sticks together wounds without involving needle The technique greatly reduces scar formation, making it particularly suitable for facial surgery. It also seals the wound, which may reduce infection.

The Indermil adhesive was developed by the Blomedical division of Loctite UK, an adhesives manufacturer. It is a transparent glue applied through a fine pen-like applicator and a delivery system that allows surgeons to select the rate at which minnte droplets of the adhesive are released using a foot switch.

Loctite UK: UK, tel (0)1707 821255; fax 01707 821200.

Optical material shows its versatility

Dutch scientists have designed a material that changes its optical properties as it absorbs hydrogen gas – switching from a transparent window to a shiny, reflecting mirror.

Researchers at the Vrije University in the Netherlands experimented with yttrium hydride and lanthanum hydride as it made the transition between metal and insulator. These materials are usually very difficult to handle, so they were covered with a protective layer of

palladinm. The ability to change the materials' optical qualities rapidly and reversibly by changing the pressure of the bydrogen gas could open np new technological applications. according to a report in Nature.

Vrije University: The Netherlands, tel 204447915; fax 204447899.

Virtual reality at the dentist's surgery

Those painful moments spent staring at the ceiling while reclining in the dentist's chair could soon be a thing of the past, urites Paul Toylor.

A Seattle-based company called Virtual i-O has developed a cut-price virtual reality beadset which belos patients relax while they watch 3-D films or listen and

watch music videos. The "i-glasses" have been installed in several UK dentists' surgeries. Germany-based Virtual Products, the European distributor, expects a further 1,500 units to be sold to UK-based surgeries in the next 12 months. Virtual Products: Germany, tel 6251 802200; fax 6251 802179.

-- Stager pering

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1995 RESULTS CONFIRMED

DANONE

SALES AND PROFITS' GROWTH

Sales rose 4.6% at constant structure and exchange rates to total FF79,450 million.

Operating income came to FF7,018 million, up 4.3%, while net income totalled FF2,133 million after an exceptional charge of FF1,800 million before tax (used to improve the competitive position of the Group's European activities) equal to FF 997 million after tax and minority interests.

Excluding exceptional items and external factors, earnings were up 3% on 1994, like-

Key consolidated figures for 1994 and 1995 are set out in the table below:

FF millions	1994	1995
Sales	76,820	79,450
Operating income	6,726	7,018
Net income, excluding minorities	3,527	2,133
Cash flows from operations	7,151	7,424
Earnings per share (fully diluted)	50.33 FF	30.96 FF

QUICKENING EXPANSION

Cash flows from operations amounted to a substantial FF7.4 billion, and allowed the Group to pursue an aggressive acquisition drive outside western Europe, with a particular focus on eastern Europe, Asia and Latin America and with no increase in debt. Group business outside western Europe expanded 46% from 1994 to 1995.

DIVIDEND MAINTAINED

The Board of Directors also adopted the financial statements of GROUPE DANONE, the Group's parent company. Net income for 1995 amounted to FF1,482 million.

The Board of Directors decided to ask the Annual General Meeting of Shareholders to be held on May 7, 1996 to approve a dividend of FF16 per share out of 1995 income, on a par with 1994. This corresponds to a total dividend of FF24 including avoir fiscal tax credit.

As in 1994, shareholders may opt to receive their dividend in Danone Group shares.

CONTRACTS & TENDERS

REPUBLIC OF ALBANIA ALBANIAN MOBILE COMMUNICATIONS sh.a.

PROCUREMENT NOTICE GSM TERMINALS FOR ALBANIAN NETWORK

Public Information Reference code: AL-GSMter-03-96 Albanian Mobile Communications sh.a. has decided to buy GSM terminals. This information is delivered with the purpose of providing vendors of GSM Terminals, an opportunity to participate in the open tender for supplying the

1. The project is financed by Albanian Mobile Communication 2. AMC now invites sealed bids from eligible bidders for supplying GSM

Interested eligible bidders may obtain further information from: Albanian Mobile Communication sh.s. Rr: "Gjergj Legisi", Laprake Tirana, Albania Tel: +355 42 349 15

Fax: +355 42 351 57 complete set of bid documents in English can be purchased by any eligible bidder on the submission of a written application to the above and upon payment of a oon refundable documentation foe of USD 350. The tender documentation includes information about the intended technical specifications, the time schedule, evaluation criteria, financial matters, etc. The documents will be sent by DHL courier or handed to a representative of the

etigible bidder.
The documentation fee must be available by bankers check or wire transfer to ant no. 2289/3620 for Albanian Mobile Communications to the Savings Tender documents will be available from the AMC office in Tirann from 21

All bids must be accompanied by a Bld Security, details of which are to be found in the bidding documents.

Bids will be opened in the presence of those bidders representatives who choose to attend at 12.00 noon 2 May 1996 at the office indicated at para. 3.

LEGAL NOTICES

the High Court of Justice No 006289 of 1995

IN THE MATTER OF THE CYPRUS COMPANIES LAW CAP 113

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GOVERNMENT OF PAKISTAN MINISTRY OF COMMUNICATIONS

PREQUALIFICATION NOTICE

Construction of Gwadar Deep Water Port

1. The Government of Pakistan through the Gwadar Implementation Committee (GIC) shall shortly be calling Tenders for the construction of Phase -1 of Gwadar Deep

The Phase-I civil works will be let in two packages:-

Package a) The dredging of a Skm shlpping channel to about 10.5m. CD together with reclamation and ground improvement treatment. The dredging quantity is of the order of 8 million cu. m.

Package h) The construction of three 200m long multipurpose herths together with earthworks, pavements, services, buildings and provision of

3. Marine Civil Engineering Contractors and Dredging Contractors with suitable heavy marine engineering and dredging experience who would like additional information for either package should request further details by applying for the Prequalification Notice from the Chairman, G.I.C., at the address given below. Alternatively, a Prequalification Document can be purchased for US\$ 200 or Pak Rupees 7,000 by applying to the address below stating which contract package you are applying for.

Contractors will be encouraged to introduce either partial or full finance loans for these Contracts. The current estimate of the dredging contract is US\$ 33 million and the civil contract

S. The deadline for the receipt of requests for the Prequalification Notice is 4 April 1996. The deadline for the receipt of report for the Prequalification Document is

Please apply on company letter head paper, identifying a contract facsimile number to: The Chairman.

Gwadar Implementation Committee, Planning and Development Division, Karachi Port Trust. P.O. Box 4725, Pakistan - 74000, Pakistan. Facsimile Number **92 21 2311567 Telephone Number **92 21 2314196

Telex Number 2739 KPT PK · Farooque A. Chaudhry, Genaral Managar (P&D), KPT, and Member, Gwadar Implementation Committee.

The Financial Times plans to publish a Survey on

Income Tax, Self Assessment

on Monday, April 1.

Self - assessment is the biggest change to the tax system since the introduction of PAYE. To find out more about this survey, please Contact: Melanie Miles

Tel: 0171 873 3349 Fax: 0171 873 3064

Triumph in the toy cupboard

John Lasseter

H 21 1996

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CYCLO Tran Anh Hung

JEFFREY Christopher Ashley

hat ever happened the present tense in human civilisation? We move so fast that today keeps vanishing in the brief intake of breath between yesterday

and tomorrow

It seems only yesterday that we film critics observed an inviolable ritual. We watched photochemically-made movies before submitting typed reviews, corrected in spidery longhand, to a sub-editor who diligently annotated them for the printers. These folk would then clatter their blocks into place so that intimacy could occur - so primal, so tactile - between ink and paper.

Now we are pinned against the wall of history by the silicon chip. This review of *Toy Story*, the world's first computer-generated feature film, comes to you hy courtesy of a word processor, a modem and ahout a million megabytes.

Will the film critte himself he next? Reviewers can surely be replaced by pixels if actors can. And actors are, in this Disney tale of escaping toys and malicious humans. The movie hangs a "For Sale" aign not just over the tradi-tional animation industry but over other, live-action genres. Before long horror, fantasy, science fiction and the musical will surely all rejoice to replace troublesome Equity members with the hyper-real

figurines we see in *Toy Story*.

Most of these live in the bedroom of little Andy, who sets off inter-toy jealousy one day by adding a "Buzz Lightyear" astronaut doll to his collection. Aggrieved string-pull cow-boy Woody, voiced by Tom Hanks, thought that he ruled the toy roost: no one else, such as Mr Potato Head or Little Bo Peep or Rex the tyran-

eople can never be fully

known hy one another.

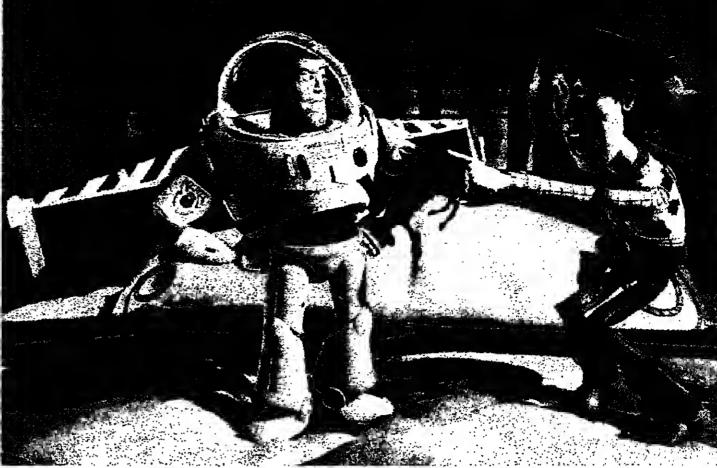
nosaur, had presumed to quibble. Now comes the vainglorious spaceman, duhbed with Tim Allen's dry, commanding bark, to divide loyalties, enact show-off stunts and even insist that he is not a toy at all.

For reasons even my computer could not summarise, the toy army is soon all over town, being chased hy dogs, small boys and director John Lasseter's virtuosic camera. For it is not just the shapes, colours and textures of Toy Story that make us gape: the 3D-effect character sculpting, the finesse with lighting and highlighting, the microscopic hackground verisimilitude. (The very walls and furniture have minute stains and scuff-marks). The other freedom we never knew in steam-driven animation was the soaring, sweeping mobility of viewpoint.

Lasseter spent over four years on this project, having trained himself with short films and commercials. and brings the same articulately gymnastic camerawork to the ani-mated feature that Kelly and Donen brought to the musical in Singin' In The Roin. Toy Story's climactic chase sequence, involving a rocket, a speeding toy car, a van, a large dog and all the main characters, is as close to a vicarious rollercoaster

ride as cinema can come. Yet the film is just as graphic and entrancing in repose. As well as slapstick for children, there is sly comedy for adults. Woody suffers from "laser envy". Buzz's forearm opens up to reveal machinery labelled "Made in Taiwan". And Marcel Duchamp would be proud of the surreal scene in which Sid. the wicked boy nextdoor, grafts together different parts of different dolls, including an uproariously macabre spider/human. "I don't believe that man's ever been to medical school," says a drily appalled Buzz.

The marvel of Lasseter's film is that it has never been to any school either, save its own trial-and-error academy. In the 15 years since Disney's misbegotten Tron brought us the first false dawn of digital animation, both the art and its artists have grown up. Flirting with every comic concelt from mock-existentialism (Buzz's toy/person identity



Flirting with every comic conceit from mock-existentialism to nightmare genetics: Buzz and Woody in "Toy Story"

crisis) to nightmare genetics, the atic close-up of hands exchanging "story" in Toy Story is every hit as good as the toys.

It is hard to know whether to approach Tran Anh Hung's Cyclo. by the French-Vietnamese director of The Scent Of Green Papayo, in a spirit of surrender or wielding the hanner "Beware the triumph of aesthetics". Images of baunting beauty and hizarreness body out this tale of a teenage "cyclo" drawn into crime in Ho Chi Minh City when his hicycle taxi is stolen.

Forget Vittorio De Sica; neo-realism went thataway. Here every character comes with a sonorously abstract title, from the hero called simply "Cyclo" to the young crime boss known as the Poet, via the hero's prostitution-recruited sister named, yes, the Sister. Meanwhile Tran's camera never merely records the action when it can caress, compose, conceptualise it. We begin with a lingering, hier-

money, like a Durer drawing sprung to life. We end with a balletic, hallucinatory delirium of spilled point. In. between, a goldfish is swallowed; a bleeding nose drips deflowering red onto a white palm flower, a nocturnal apartment block is shot in fast motion, its surreally accelerated lives glimpsed through windows like frames in a film strip; and even a pair of slippers takes on a ghostly. startling beauty as the same item

did in Papavo The visual virtuosity achieves two things. It causes the viewer to gape in amazement as every sequence, however downbeat its setting or subject (a hovel, a torture room, a sex tryst), is buffed into a sheeoy beauty or poetic ingenuity, And it turns the human lives and emotions oo display into objects no more sympathy-engaging than the slaughterhouse meat carcases theantifully shot) in which the Poet's gang smuggle their drugs.

Like image, like movie. Cyclo increasingly comes to resemble two hours of dead meat with a high nar-cotic cuntent. Scenes that might and probably should repel us induce instead a dazed, prurient wondermeot, like the urination games the prostitute sister is forced to play by an elderly client or the torture/murder scenes in which "Mr Lullahy" sings to his victims before slitting their throats. Here we have that oldest provoking conundrum of all in art: something overpoweringly beautiful ahout something that should be overpoweringly ugly.

Jeffrey, by contrast, is a film of deep-down charm stuck together with tape from a Broadway comedy. Dramatising the difficulty of gay love in the Aids era, playwrightscreenwriter Paul Rudnick guides his title bero (Steven Weher) through soliloquies, satirical skits and fantasy scenes, as Jeffrey hesitates at Hamlet-like length over hitching his star to lovelorn, HIV-

Director Christopher Ashley makes brief, oervous forays into opening the play out. The best of these is a surreal cutaway to a "real" cinema audience gasping at the first all-male kiss. (The approving gasps comes from the women, the outraged ones from the men). Elsewhere we accept the stagey, sketch-style rhythm simply becaus the sketches are funny: including a Mother Teresa chorus figure whose special talents include jamming at a

jazz piano, and the gay Catholic

priest whose coofessional is lined

with Broadway posters. lmaginative casting gives strength in depth. Weber's lithe hero is joined by Sigourney Weaver as a hellfire guru from Sexual Compulsives Anonymous, Olympia Dukakis as the worried mother of a "pre-operative transexual leshian son and Patrick Stewart, traumatising all Trekkies as a queenly inte-

Alice in Wonderland

Ballet

erek Deane's Alice in Wonderlond, which opened English National Ballet's Coliseum season on Tuesday, is a significant work. Not. alas, through any startling mertt as choreography - it is a clevar production, having workmanlike dances when the occasion arises - but because it indicates how a large-scale touring ballet company must earn a living in today's ludicrously funded arts

The way to financial viability is plain: give the Great British Public what it knows. The way to artistic credibility - which is a path Deane (as ENB's director) also seeks to follow - is the road to penury. So Deane treads a tight-rope over the abyss of inadequate subventions, with crowd-pleasing, stultifying predictabilities (such as Alice) set against the smaller adventures of ENB's mid-scale tours of valoable modern work, which will follow on from this Coliseum season.

In its cheery way, Alice is clever programming. Its title is bugely familiar - a ballet called Coronation Street would fill theatres for ever - and it has a score assembled by Carl Davis from Tchaikovskian sources. Deane, who has a cunning sense of theatre, has pulled every trick of transformatioo, every sleight of hand of scene-change, to shape a finid, vivid action which reflects the incidents of the story. Be is sufficient of a choreographer to make good roles for his soloists. and decent ensembles for his corps In Sue Blane's skilled designs, we see the Tenniel illustrations brought to happiest life, and ENB's artists fill them with bright and by no means unworthy characterisa-

The piece is, in sum, exactly what audiences hope for, want to see, and enjoy. That it represents, on its deepest level, a calculated appeal to the lowest common denominator of public perceptions about "ballet" is simply Deane making sure that bis dancers and his company survive. And I appland him for the style with which he has pulled the whole thing off. I would not clap with even one hand for the financial and governmental policies which have made this work neces-sary. ENB is a strong company and looked excellently well on Tuesday night - with a vital role to play in our balletic life. That Alice, as the price it has to pay for existence, is a success redounds to the company's credit. But it is a miser-able reflection upon the conditions under which the company has to grub out that existence.

I reported on Alice at its first performance last antumn. On Tuesday night It looked very sleek and jolly in performance, with every trick (and there are plenty to keep the groundlings in a roar) pulled off, and every role well-played. Alice Crawford is a delightful herodemands, and all the other characters are just as you expect to see them (Christopher Hampson a sinuously credible caterplliar). The jury at the Knave of Hearts' trial look improbable enough to feature unchanged as the hunting party in Giselle, and Thomas Edur keeps the flag of classic dance proudly. grandly flying as the Knave. The score sounded well under David Coleman. The audience had a splenheard was probably the future of

did time. The faint whirring noise our ballet spinning in its grave. Clement Crisp English National Ballet plays Alice

Theatre/Alastair Macaulay

Well-paced Pinter

This hasic truth is the heart of Harold Pinter's plays. His characters, again and again, prove themselves inscruta-ble, unfathomable, unknowable. As we observe them, what they do or say repeatedly takes us by surprise. And it surprises other people onstage: they find themselves appalled, frightened, perplexed. wrongfooted, excited, enthralled -sometimes by apparently negligible Pinter's demonstration of the

unknowability of people makes a political point: since no one can be fully known nr possessed, it is wrong to try to control them. None-theless, people try precisely that, and it is this that gives most of Pinter's earlier plays their particular sense of menace. More than once, he shows us that it is those who would control who are actually most afraid; and he suggests that the effort to control other people actually reflects a fear of them. The freest characters are the ones who do least to sway those around them, and who assert their own mystery most surely. And the freest charac-

It is the freedom of Ruth in Pinter's 1965 play The Homecoming that makes this play so alarming. Why does the heroine choose this

ters - this is too seldom remarked -

fate? You watch, aghast. Teddy, in their eyes that she pleases them. eldest of Max's three sons, returns to his old home with Ruth, his wife And as she does so, she takes con-trol of the bousehold. The play is (and the mother of their three sons). Max and his other sons, Lenny and Joey, keep a harsh, tense, misogynistic household - no surprise that Teddy left home - and yet, after initial apprehension, Ruth holds her own. Not only that; she takes the other sons on sexually, she agrees to their idea (obliquely stated) of setting her up as a high-class prosti-

tute (she negotiates superior terms), and she becomes a replacement for their dead mother too. Really this story is a Romantic/ Gothic horror story: she is the loyal hride who reveals herself as the whore, and he, her betrayed bridegroom, retreats in near-archetypal Romantic agony. The play's spiril is also close to film noir. Ruth is not unlike the role Barbara Stanwyck plays in Double Indennity. In general, however, Pinter's style

here is so laconic and so amhiguous that The Homecoming feels a completely original work, compelling and uniquely disturbing. Max, Lenny, and Joey all express such overt misogyny, and yet it is pre-cisely when Ruth becomes a "tart"

frequently very funny, but what you remember is its chill. Just as Teddy is about to leave. Ruth addresses him as "Eddie". He turns. Pause. Then she says "Don't become a stranger." He walks out of the door, she sits relaxed, and his male relatives group themselves about her. Joey with his head in her

The new staging by the Leicester Haymarket Theatre is excellent, and its audacious decor by Frank Flood - the play's single living room is elongated, more like a corridor - brilliantly underlines the tension of the drama. Chris Ellis's lighting also makes superb effects, often falling strongly onto Ruth's face to haunting effect. Julia Lane is Ruth, and she makes her face masklike; nothing quite hrings her fully to life - she is always hiding her time, and her voice is dull, out of tune - and her reserve becomes enthralling.

Ben Barnes directs with a stylisation that gives the play the force of nightmare. Lane's mystery is opposed to the brutish patriarchy of

Max, in whom George Sewell rightly reveals weakness behind the hullyiog. Jonathan Oliver, as the spiv Lenny, is actually too sinister, it becomes arch. But Phill Curr very nicely shows how Joey is both thug and lapdog, and Andrew Rattenbury makes Teddy almost as inscrutable and free as Ruth.

There is much less to say about

Paul Kerryson's staging of Sean O' Casey's Juno and the Paycock rs in the Haymarket Studio. when Nora Connolly enlivens proceedings as Maisie Madigan. But this kind of intimate play reveals Kerryson's worst flaws as a director. He treats the studio space as if it were a distant area behind a proscenium arch. Characters listen to each other as if they were stuffed, several scenes are paced as if to a metronome, and there is seldom any detail that hrings things to life. Dillie Keane, in two-dimensional hangdog mode, never makes Juno seriously believable; but, as her Paycock husband, Peter Forhes steadily gains in strength.

The Homecoming continoes at the Leicester Haymarket until March 23, Juno and the Paycock, at the Leicester Haymarket Studio, until

The Soldier's Song elfast comedy company revealing a subconscious fear that

Theatre/Ian Shuttleworth

The Hole in the Wall Gang perform a sketch which has become a local classic. parodying the archetypal Troubles play. It features a paramilitary son anguished by a case of love across Eventually, the play itself makes its | toring father and a supportive impact, and certain Individual mother whose universal panacea is seenes hurst into life, especially a cup of tea. It is hard to believe that Belfast-born Byran James Ryder has not seen the spoof, but his first play nevertheless features all these elements to a greater or lesser extent. The McManns family from the

Falls Road consists of son Eamon, in a Provie terrorist cell: father Jimmy, an unemployed, narrow-minded drunkard; and daughter Elaine, away from home bettering herself at Queen's University. Lynchpin of the family is mother Irene, who is intent on studying for the qualifications that would bring her a full-time joh - naturally seen by Jimmy as a betrayal.

The play is set on the eve of the 1994 ceasefire, with Eamon about to go out on one of the last "jobs" before the cessation. He is given a moderately perceptive speech the ceasefire will rob him of the central defining aspect of his life, hut otherwise Ryder sadly fails to explore the massive extent to which that decision redrew the social as well the political playing-field.

perform with individual and collective diligence. Billy Carter's performance as Eamon stands out; he has the ability to suggest inner turmoil while standing immobile through another character's outhurst, and copes well as Ryder's writing becomes more laboured and frenzied towards the obligatory bloody offstage climax. Anne Carroll makes the most of a mother, although Colin Tarrant never quite gets to grips with Jimmy's faltering journey towards self-recognition. The Soldier's Song had its genesis

in an audition piece - presumably Eamon's speech immediately before he leaves to commit his final act of violence. However, as a full length play it is original neither in approach nor content.

At the Theatre Royal Stratford East, London E15, until April 13 (0181 534 0310).

at the London Colisenm all thia week. Cinderella and Giselle are on view next week. Alice is sponsored in 1996 by Churcbill Inter-Contipental London.

INTERNATIONAL

■ AMSTERDAM

CONCERT Concertgebouw Tel: 31-20-5730573 Rotterdams Philharmonisch Orkest: with conductor Valery Gergiev, the Kirov Choir, the Rotterdams Jongenskoor, the Zaans Jongenskoor Waterland and tenor Stuart Naill perform Stravinsky's

Apollon Musagète and Berlioz's Te Deum; 3pm; Mar 23

ATHENS

CONCERT Athens Concert Hall Tel: 30-1-7282333 Wiener Symphoniker: with

conductor Georges Pretre perform works by Ravel and Tchaikovsky; 8.30pm; Mar 23

BERLIN

CONCERT Konzerthaus Tel: 49-30-203090 Deutsche Kammerphilharmonia: with conductor Thomas Hengelbrock and soprann Ruth Ziesak perform

works by Schnebel, Schubert, Haydn and Mozart; 8pm; Mar 24 MUSICAL Metropol-Theate

Tel: 49-30-202460 Ninotschka (Slik Stockings): by Porter (in German). Directed by Joachim Franke, starring Ines Rabsilber, Fritz Hills, Carry Sass, Peter Ranz and Wolfgang Ostberg; 7.30pm; Mar 23, 24 (3pm) OPERA

Deutsche Oper Berlin Tal: 49-30-3438401 It Trovatore: by Verdi. Conducted by Jin Kout and performed by the Deutsche Oper Berlin, Soloists Include Amanda Halgrimson, Hermine May and Paolo Coni; 6pm; Mar 24, 28 (7.30pm)

BUDAPEST

CONCERT Academy of Music Tel: 36-1-2663108 Budapest Concert Orchestra: with conductor Zoltán Kocsis and

pianist György Oravecz perform works by Bartók, Prokofiev and Dvorák, Part of the Budapest Spring Festival '96; 7.30pm; Mar 22

DRESDEN

CONCERT Sächsische Staatsoper Dresden Tel: 49-351-49110 Johannes Passion: by J.S. Bach. Performed by the Sächsische Staatskapelle with conductor Hans-Christoph Rademann, the Dresdner Kammerchor an der Hochschule für Musik Dresden *Carl Maria von Weber", and members of

the Cappella Sagittariana and the Dresdner Barokorchester, 8pm; Mar

DUBLIN CONCERT

National Concert Hall - Geoláras Náisiúmta Tel: 353-1-6711533 National Symphony Orchestra: with conductor Kasper de Roo, violinist Agustin Dumay and soprano Lynda Russell perform Berg's Violin Concerts and Mahler's Symphony No.4; 8pm; Mar 22

■ GLASGOW CONCERT

Glasgow Royal Concert Hall Tel: 44-141-3326633 • 100 Years of Cinema: the Scottish Opera Orchestra with conductor Carl Davis and soprano Ida Maria Turri in a programma of film music. The programme includes a tribute to John Williams, and music from Cinema Paradiso, Gona with the Wind, Doctor Zhivago and others; 8pm; Mar 23

HAMBURG

OPERA Hamburgische Staatsoper Tel: 49-40-351721 Khovanshchina: by Mussorgsky Conducted by Gard Albrecht and performed by the Hamburg Oper. Soloists Include Aage Haugland and Elena Zaremba; 6pm; Mar 24

LONDON

CONCERT Barbican Hall Tel: 44-171-6388891 Magic of the Musicals: an

evening of music from musicals performed by the BBC Concert Orchestra with conductor Steve Brooker and guest singers Mary Carewa and Michael Dore. The programme includes music from Cats, Les Miserables, Evita, Phantom of the Opera, Sunset Boulevard, Chess, Jesus Christ Superstar, Carousel, Oliver, Copacabana, and Crazy for You; Bpm; Mar 23

Wigmore Hall Tel: 44-171-9352141 Brigitte Fassbaender Masterclasses on Opera and Lieder, with planist Nicholas Bosworth and vocal consultant Victor Morris; 3pm; Mar 22, 23, 24 (4pm)

■ MAASTRICHT CONCERT

Theater asn het Vrijthof Tel: 31-43-3293179 Limburgs Symphonie Orkest; with conductor/violinist Shlomo Mintz perform works by Rossini, Bruch and Nielsen; 8.15pm; Mar 22, 23

■ NEW YORK CONCERT

Avery Fisher Hall Tel: 1-212-875-5030 Los Angeles Philharmonic: with conductor Esa-Pekka Salnnen and soprano Joan Rodgers periprin Bartók's Music for Strings, Percussion and Celesta and Mahler's Symphony No.4 in G; 3pm; Mar 24

EXHIBITION Brooklyn Museum Tel: 1-718-638-5000

 A Slice of Schiaparelli: Surrealism In Fashion from The Brooklyn Museum: axhibition of soma 50

pieces of the museum's collection of hats, jewellery, belts and other items created between 1934 and 1940 by the couturier Elsa Schiaparelli (1890-1973); to Mar 24

 The Art of Thomas Wilmer Dewing: Beauty Reconfigured: exhibition devoted to the art of American artist Thomas Wilmer Dewing (1851-1938), who was a key figure in the American "cult of beauty" at the turn of the century; from Mar 22 to Jun 6

ORLEANS EXHIBITION

Musée des Beaux-Arts d Orléans Tel: 33-38 53 39 22 Mémoire du Nord. Peintures flamandes et hollandaises des Musées d'Orléans: exhibition of more than 100 Flemish and Dutch paintings from the museum's collection, a large part of which has never been on display before. The exhibited works were created between the end of the 16th century and the first part of the 19th century and includa religious, historical and mythological paintings, landscapes, portraits and still lifes; from Mar 22 to Jun 30

PARIS CONCERT

Salle Pleyel Tel: 33-1 45 61 53 00 Orchestre National de France: with canductor Yevgeny Svetlanov and violinist Vadim Repin periorm works by Svettanov, Tchalkovsky and Rachmaninov; 8pm; Mar 22 Théâtre du Châtelet

Tel: 33-1 42 33 00 00 Helène Mercier-Amault and Louis Filipova, Anthony Michaels-Moore Lortie: the planists perform works by and Frederic Kalt; 7pm; Mar 23, 26

Mozart and Stravinsky; 0.45pm; Mar EXHIBITION

Musée d'Art Moderne de la Ville de Paris Tel: 33-1 53 87 40 00 Passions privées: exhibition of modern and contemporary art from French privata collections. The display includes some 1,100 works by approximately 400 artists.
Included in the exhibition are works by Cezanne, Van Gogh, Picasso. Bonnard, Kirchner, Munch. Schiela. Picabia, Ernst, Magritte, Dubuffet and many others; to Mar 24

ROME **OPERA**

Teatro dell Opera di Roma Tel: 39-6-481601 Il matrimonio segreto: by Cimarosa. Conducted by Lü Jia and performed by the Opera di Roma. Soloists include Laura Cherici. Simone Alaimo and Bruno Lazzaretti: 8.30pm; Mar 22, 24 (4pm)

SAN FRANCISCO CONCERT

Louise M. Davies Symphony Ha Tel: 1-415-864-6000 The Chieftains: perform traditional trish music; 8pm; Mar 23

VIENNA

OPERA Wiener Staatsoper Tel: 43-1-514442960

 Manon Lescaut: by Puccini. Conducted by Jan Latham-König and performed by the Wiener Staatsoper. Soloists include Elena WORLD SERVICE BBC for Europe can be received in western Europe on medium wave 648 kHZ

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Peter Martin

An adventure in full sail

Hong Kong's success reminds us that great wealth can be created by informal relationships between entrepreneurs from many cultures and backgrounds

At this time of year the tops of between two family-controlled Hong Kong's skyscrapers are companies; an aggressive bet permanently shrouded in mist. on the city's future economic Looking out at an invisible harbour from the 45th floor prosperity and political stability; and an asset whose ultiprovides a powerful metaphor mate rewards depend largely for the veil of ambiguity on the efforts of others. which envelops the success of This last judgmeut may the clty's Chinese business seem harsh; but it reflects the establishment.

The question is a simple one: what lessons should western companies draw from the success of these familycontrolled businesses? Is the billions of pounds of wealth they have accumulated - in many cases within the past 15 years - the outcome of a distinctive Asian way of doing business? Or is it in large part the result of natural selection in a climate of low taxes and sustained economic growth? The scale of the achievement is not in doubt. As one example, take this week's high Hong Kong real estate transaction. Two of Hong Kong's largest property developers - the Kwok brothers' Sun Hung Kai and Mr Lee Shau-kee's Hen-

derson Land - won an auction to pay HK\$4.7bn (£397m) for a 162,000 so ft plot of reclaimed land in Hung Hom Bay. The decision to bid, says one of the participants, did not require sophisticated computer modelling, indeed, it sounds as if the arithmetic scarcely required the back of an envelope. The two developers are acquiring rights to develop 1.5m sq ft of property. They are paying HK\$3,200 per so ft for that, and once building work and interest are taken into account they will have spent HK\$5,000 for each square foot of developed floor

space. When the buildings are completed, in four years' time, they expect each square foot to be worth HK\$6,000 at today's prices and more if Hong Kong property values outstrip the rate of inflation, as has often been the case. Even without sucb a bonus, however, the developers expect a profit of HK\$1,000 on

each of the project's 1.5m sq ft. The transactions have all the hallmarks of a classic Hong Kong deal: a partnership

logic spelt out by one of the city's most prominent local businessmen. The real beroes of the Hong Kong economic miracle, he says, are not the big groups but some 70,000 entrepreneurial businesses which employ those who pay Hong Kong's high rents. Over the years, these businesses have done whatever is necessary to survive and prosper: ahifted from import/export trade to manufacturing and then to services; from plastic flowers and textiles to fashion and electronics; from factories in Hong Kong itself to plants across the border in China. The entrepreneurs' relentless pursuit of growth and profitability has brought prosperity to them and unimaginable wealth to those of their number shrewd enough to control the essential supplies and

The success of this approach ecboed in the other tiger economies of south-east Asia -

infrastructure of the Hong

lessly superior to conventional western management, say its advocates, as Japan's lean manufacturing is to Henry Ford's assembly line.

The essence of Asian business, on this view, is a dependence on informal, often famnetworks; quick. instinctive decision-making: the willingness to consider any opportunity, rather than an artificial restriction to a "core business"; and a whole hearted commitment to the future. The contrast with bureaucratic, focused, cautious, analytical western businesses is a telling one.

Yet the Asian style of husiness is inseparable from the economic context in which it operates. In Hong Kong, for example, despite the ups and downs caused by political uncertainty, gross domestic product has grown at an average rate of more than 6 per cent a year since 1980. And as one prominent business figure points out, China's slogan of "one country, two systems" to describe how it will treat Hong Kong after the British handover in 1997 has in fact been operating informally

since the late 1970s. In such circumstances, the



new style of Asian business is taking shape. It is as effort-cient of the two systems. This stream of profit, and the sustained high rates of economic growth from which It stems, explains much of the Hong Kong style of business.

Powerful cash-flow generation has permitted families to retain control of what are now giant businesses, by limiting the need for external capital. Rapid economic growth bas ened the penalty for mistaken investment decisions, and placed a premium on acting quickly. The frictions that occasionally arise among networks of Informal relationships are soothed by the pros-pects that even if some participants are unbappy today, all will be richer tomorrow. And in an economy where demand regularly presses against the limits of supply, the need for focus and discipline in corporate strategy is less than in maturer

markets elsewhere. So, though Asian managers undoubtedly bring different cultural experiences and values to their daily tasks, their basic approach to business may not be as different from that of their western counterparts as some of them occasionally suggest.
None the less, there are use-

ful lessons here for western managers. First, rapidly growing markats, though often unpredictable, are much more forgiving than stable or mature ones. In principle, everyone knows this truism. But in practice, it is tempting to steer clear of unfamiliar product and geographic markets, or to downgrade their significance until the growth has actually taken place - and the opportunity has gone.

Second, it is worth learning from the emphasis of Asian managers on instinctive risktaking and speedy decisionmaking. There is a danger, particularly after the trials of recent years, that western companies will become too cautious and analytical in their approach to opportunities. As a result, strategles driven by cost ents appear more appealing than those based on expanding revenues. One paradoxical result is the triumph of the herd instinct for example in the Internet gold rush. Because companies are cautious, they seek to exploit only those opportunities validated by consensus,

and so risk destroying them with over-supply. A third lesson to draw from the Asian management style is the strength of informal networks of alliances. Western companies cannot hope to draw on the clan ties which are such an important element in binding Asian famlly groups. But they can bope to create strong but informal corporate relationships in which natural partnerships in some areas co-exist with fierce competition in others.

If western businesses have something to learn from their Aaian counterparts, the reverse is also true. Few of the tigers - South Korea excented have produced strong inter national branded-goods com panies, for example. The emphasis on informal networks can easily spill over into an unhealthy reliance on connections with powerful government officials. And a willingness to consider all business opportunities openmindedly can lead to rusbed and unsuitable investments in areas outside a company's

true field of axpertise. In the long run, there is probably no simple way of classifying management styles by cultural origin. A high-risk, high-growth business, whatever its cultural, ethnic or geographical origins, imposes its own logic on the people who run lt. The same is true for a business fending off decline.

When the mist lifts from Hong Kong's towers, it reveals a city formed by a century and a half of intertwined commercial relationships between companies of British, Chinese, Indian and other ethnic ori gins. The skyline, and the city Itself, are reminders that wealth can be created by merchant adventurers of many BOOK REVIEW · Sarah Hogg

POLITICS AND THE POUND: The Conservatives' struggle with sterling By Philip Stephens Macmillan, £20

The backstabbing after Black Wednesday

mistake to read this book fresb from watching Mother Courfrom one war zone to another at the National Theatre. There is a Brechtian bleakness, relieved only by Philip Stephens' light touch, about the saga of the UK government's vicissitudes with sterling.

When the then Mrs Margaret Thatcher won the 1979 general election, the rising pound was first a symbol of victory, then (as it soared to DM5, wiping out the equivalent of one UK factory in seven), a destructive by-product of too crude a domestic monetarism. A falling pound became a matter of relief, then indifference, then (as it sank towards parity with the dollar) a political embarrassment.

Small wonder the author sbould quote John Kenneth Galbraith to the effect that nothing is so admirable in politics as a short memory". After these wild and damaging gyrations, the scene was set for the government's long apprenticeship and brief mem-

exchange rate mechanism. This is, in effect, two books: up to 1990, Philip Stephens is writing history, illumined by time and autobiography - the tombstone volumes of Baron-ess Thatcher and Lord Lawson tbat "explain" the explosive relationship that was ultimately fatal to both. It is an extraordinary political drama,

rich in character and intrigue. But with the story of Black Wednesday, the day that sterling left the ERM, the book breaks new ground. It is therefore, perbaps inevitably, skewed towards this later

period. "Too Late" - the title of the chapter on Britain's entry to the ERM - reflects the then Mr Lawson's failure to persuade Mrs Thatcher to enter in the mid-1980s. Certainly, by 1990,

making realignment much more difficult; although John Major, by then prime minister, did consider this in the autumn of 1991, the increased rigidity of the system, the nearness of an election, and remaining anxieties about inflation make it easy to understand wby he did not pursue the option. But hy the summer of 1992, the government was in trap: it no longer seemed likely that a limited devaluation, within the confines of the

ERM, would hold without a hike in interest rates. Philip Stephens disposes of the now-common claim that it was "obvious to all" the central rate at which Britain had entered the ERM - DM2.95 was too high. He points out that some of today's know-alls actually pressed for a higher central rate As for the Bundes. bank's famed scepticism, the rate officials there talked of over the weekend of entry was an insignificantly different

DM2.90. Moreover. the French considered that too low; so while it is true that more consultation would have been tactful, it was unlikely to have made a difference, bership of the European

Through the Treasury analysis which concluded devaluation would lead to higher, not lower, interest rates, through the chancellor's troubles at the Bath summit of finance ministers and the prime minister's dogged defence of policy to the Scottisb CBI conference, Philip Stephens' vivid and damning account of the final grim phase before Black Wednesday is compelling, if not comfortable, reading. He is rare among political writers in his clear understanding of the economic arguments. There is, indeed, perhaps only one unpleasant flavour, and that is nothing to do with the author: it is the frequency with which one can detect the knives of Treasury officials being stuck into each

other's hacks. For all Philip

Stephens' efforts to apportion

criticism fairly (the stories of

prime ministerial wobbles on

debunked), those who did not talk to the author seem to have ended up, inevitably, with an undue share of the knife wounds.

So he comes to the long, bleak struggle to create a new economic policy from the ashes of the old. There were, as he says, other causes for the gov. unpopularity, and perhaps he gives too great a weight to Black Wednesday as compared with, most significantly, the tax-raising Bndgets of 1993. But we are left with the

irony that a government in deep economic trouble in 1991-92 (unemployment roaring forecasts sinking. double-digit mortgage rates) still enjoyed a reputation for economic competence with the voters, while today it is given the thumbs down in the polls, despite the lowest inflation and mortgage rates for a generation and three years of falling unemployment.

It is, of course, an unfinished story. Better Budget news last November is not yet in people's pockets: most forecasters (not just the Treasury) auggest a bappler year for consumers than they have known since the late 1980s. And sterling? It has again become an issue. this time one of national sovereignty. I share Philip Stephens' view that no British government would seek to abolish the pound before the millennium indeed, I would predict a longer life for it than that. Yet he ends with a world-weary confidence that there will sooner or later be another "sterling crisis", and the depth of his knowledge of the past 17 years makes him hard to contradict.

Baroness Hogg was head of the prime minister's policy unit from 1990 until early 1995

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FINANCIAL TIMES

Newsletters

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·LETTERS TO THE EDITOR·

Number One Southwark Bridge, London SEI 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to fine). e.mail: letters editor@ft.com Translation may be available for letters written in the main international languages.

Important that TV chip | Fair to say no company allows parents, not others, to make choice

From Mr John C. Bailey. Sir. Your editorial, "False promise of the V-chip" (March 19), displays the characteristic sneeze reaction of a broadcasting and publishing group to the faintest whiff of media censorship. Your quibbles about the cost or consistency of rating systems and pious observations on the inability of technology to "repair defects of parenting" are little more than a

The essential feature of the v-chip is that it offers that

Tory touchstone, parental choice. Initially, the choice will be whether to upgrade to a TV with a V-chip. Then, when all sets are so equipped, the choice will be wbether to activate the scrambling mechanism. The crux is that parents (rather than broadcasters, politicians or politically-correct child psychologists) will make the

John C. Bailey, Hornbeam Lodge. Harlequin Lane, Crowborough, E Sussex, UK

Sport should be left to sell itself to highest TV bidder

From Mr Richard Tweed. Sir, it makes no sense to say that some sports events are national institutions which must be broadcast on terrestrial television channels Why should certain events and sports people be prevented from selling their wares to the highest hidder, as in other areas of commerce?

The broadcasting market is already distorted to benefit the BBC: everyone has to pay the licence fee, whether they watch BBC or not. Having paid the licence "tax". BBC is available "free". Now the sports market is going to be

distorted so that the licence will not seem bad value. Is it really fair to oppress fine sporting events for the

benefit of the BBC? If the chancellor is looking for a tax to abolish, let him abolish the BBC tax - the licence fee. Let viewers choose which channel they want to watch, and whether they wish to pay for them, or whether they prefer to let advertisers pay for the service, and pay nothing

Richard Tweed. 10 Lyndhurst Close Park Hill, Croydon, UK

Code needs to consider others

From Mrs Kristin E. Shay. Sir, All right, let us not have a highway code of morals ("Morals adrift in the market place", March 9/10). But please do let us bave a

more strongly emphasised code

45 Gunterstone Road London W14 9BS, UK

Justice too serious for judges From Mr.R. Ewart Crawford. suggest that justice is too

Sir, With reference to your editorial "Heed the judges" (March 8), echoing the dictum of former British prime minister Lloyd George about generals in the first world war. oublic outrage would now

of manners based on the principle of consideration for others. Kristin E. Shay,

serious a business to be left to R. Ewart Crawford

70 Abingdon Villas. London W8 6XB.

ever shrank to greatness

From Mr Dwight Gertz. Sir, Michael Prowse's column "Blame consumers (March 18) raises a good point in reminding us of the obligation to strain every corporate muscle in order to satisfy customers.

There are, however, two ways to do this. It is right to distinguish between them. Corporate shrinkage may be necessary in some cases but it is usually a sign that customer needs went unserved for too long. As such, it strains the muscles but often occurs too late to solve the problem.

The best corporate leaders anticipate customer needs and react quickly to surprises. Their companies take market share from their less nimble foes, grow steadily, and rarely need to shed workers. Sharebolders, employees and customers are all better served by these leaders.

Growth leaders also do well for themselves. Our studies of market economies on three continents show that the best response to stock market pressure is always profitable growth, and that this growth can be achieved in any industry. Ironically, the stock market's reward for the shrinker is smaller and less durable. It is indeed fair to conclude that no company ever shrank to greatness.

Dwight Gertz, vice-president, Mercer Management Consulting Inc. Lexington MA 02173. US

From Dr Steve Fleetwood. Sir, it seems to have slipped the minds of most economists, including that of Michael Prowse, that the alter-ego of the consumer is the producer. While all of us are consumers, most of us will also, at some point in our lives, be producers

When, in my guise as a consumer. I demand a particular commodity, a producer somewhere has to respond. But then when this same producer, now in the guise of consumer, demands the commodity that I produce. I have to respond. Satisfying our needs as consumers me foregoing our needs as producers as we are increasingly expected to put up with a myriad of attacks on working conditions in the form of labour market flexibility. atypical working patterns and lack of job security. In the name of consumer sovereignty, it appears, we

subject each other to attacks on our working conditions. This might not, pace Prowse be "a reasonable price to pay for the benefits of market capitalism". As we enter an epoch of radical labour market change, perhaps it is time to pause and reflect on our role as producers - before engaging in a race to consume each other out of decent jobs.

Steve Fleetwood, De Montfort University. The Gateway, Leicester LE1 9BH,

Forgiveness adds to deficits

From Mr Albert FL Hamilton. Sir, At the risk of excessive precision, it is suggested that the proposed external debt relief plans of the World Bank and International Monetary Fund would not increase the stock of debt rescheduled at the Paris Club, but rather would raise the maximum level of debt the G7 creditor governments would be prepared to forgive ("World Bank urged to hack debt plan" March 14). That level they set at 67 per cent at their Naples

As I pointed out in your issue of January 4 (Letters) debt forgiveness via tha Paris Club serves only to add to the deficits of the creditor governments. While these governments piously maintain their opposition to export subsidies, obviously exports not paid for by buyers, but rather by exporters official export credit agencies, are Albert H. Bamilton, 1501 Lee Highway, Suite 302

Virginia 22209, US

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FINANCIAL TIMES

Number One Southwark Bridge, London SEI 9HL Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700 Thursday March 21 1996

Mad cows and ministers

The latest twist in the UK's mad cow saga will devastate producers. upset consumers and embarrass the government. While the damage to producers will be substantial, the risks to consumers still seem minimal. But the government must not be complacent. Not only will it have to offer help to producers, it must also reconsider how best to commission, transmit and employ such politically sensi-tive scientific advice.

The essence of yesterday's announcement was that a new form of Creutzfeldt-Jakoh disease (CJD) has been identified in 10 people under 42 years of age. While there remains no direct evidence of a link with bovine spongiform encephalopathy (BSE), that is now a strong possibility. In response, the government'a spongiform encephalopathy advisory committee has recommended more stringent controls on the movement of meat through the food chain, as well as further research. The government has accepted these recommendations.

Yet the advisory committee also insists that the risk from eating beef is minimal and has not changed its advice to consumers. At first glance, this seems right. Even if there were a link between BSE and CJD, it might be with meat consumed before the measures introduced in 1989. Furthermore, the proportion of the population affected by the new form of CJD is just 0.00002 per cent, fewer than perish on the roads each day. When there is anch a witches' brew of scientific ignorance and

popular suspicion, however, still greater caution may be needed. Most scientists do think the risks to humans are minuscule. Others disagree. In such a situation, what

should a government say and do? The answer comes in four parts: first, it would seem quite wrong for a government to ban a food-stuff when the risks seems so small, though in making the decision it must recognise the excep tional public sensitivity to safety of food and drink; second, the government must not state or ever imply that something is perfectly safe when it simply cannot be sure of it; third, research that might appear relevant to securing greater knowledge should be generously funded.

Fourth, and most important, the government must establish a system for disseminating scientific opinion that is above suspicion of any political taint. All connection between departments responsible for producers and advice to consumers must be broken. Further more, scientific advice to consumers should, so far as possible, not

be transmitted by politicians. At present, the government will always be suspected of a cover-up in the interests of food producers. That almost certainly imposes more damage on producers than would a less politicised approach. in the short term, the government's main concern may be how to compensate producers for the fresh damage. In the longer term, however, it must reconsider its approach to the politics of food

Nato's promises

Mr Warren Christopher, the US ers into a de facto sphere of Russecretary of state, has made sian influence. That is a strong another attempt to square the cirargument, and it underlines the cle hy assuring the ex-communist need to develop security links nations of central Europe that they will in due course join Nato while promising Russia that it must also have an important place

in the European order. His statement in Prague that Nato enlargement is on track and will happen" will go some way towards assuring the Poles, Czechs and Hungarians that Russia does not, after all, have a veto over their security arrangements. At the same time, the speech will confirm the suspicion among Russians of all ideological complex-ions that Nato is taking advantage

of their country's weakness. Nevertheless, the central Europeans are unlikely to be fully satisfied by Mr Christopher's promise, and the Russians will not regard the matter as settled elther. There is no sign that Moscow has given up hope of indefinitely delaying a project which it views as damaging to its geopolitical interests.

It is far from certain, despite Mr Christopher's bold words, that Nato will expand. He cannot prejudge the result of the forthcoming presidential elections in either the US or Russia, or the opinion of legislatures, including the US Sen-

ate, in Nato's 16 member states. There will be tough debates in all those assemblies, with sceptics arguing that, by incorporating a few countries, Nato may cast othwith those coontries like Ukraine and the Baltic states which will not join Nato soon.

Because of the complexity of these debates, there is a real risk that Nato will have the worst of all worlds. It may incur considerable damage to its relations with Russia by preparing to enlarge -and then abandon the whole project through a failure of nerve.

Having raised expectations, Nato could hardly tell the candidate members in central Europe that they will not, after all, be allowed into the alliance without incurring huge loss of face. But this problem would be considerably less acute if the existing members of that other western club. the European Union, were more generous, and less beholden to their own domestic lobbies, in opening their doors.

In such an Ideal world, Nato might then be able to tell candidate members that it sees no need to enlarge now - but would do so immediately if a threat were to emerge from any quarter. In prac-tice, however, the Czechs, Poles and Hungarians would be sceptical of such a conditional promise Having observed the west's uncer tain response to Bosnia, and the selfish attitude of some EU members to expanding that club, their Nato must respond accordingly.

The simmering dispute between British Telecommunications and its regulator Oftel will lead to a reference to the Monopolies and Mergers Commission this summer. That is the prohabla result of Oftel's latest thoughts on curbing BT's prices, published yesterday. Its consultation paper is in most respects a sensible attempt to increase efficiency and curb prices in a fast-changing but not yet fully, competitive industry. Even in an industry well suited to privatisation, regulation and competition take decades to bring down prices. The average bill has fallen from £70 a quarter when BT was priva-

tised in 1984, to £50 now, after allowing for inflation. Oftel reckons bills should fall to £30 by 2001. In arriving at its new pricing recommendations Oftel has made important changes to past statements. In particular, it has softened its view of the return on capital which it thinks BT ahould earn on regulated activities. It is now looking at the upper end of the range of 9 per cent to 13 per cent, rather than the lower end. The change is welcome; it better

reflects the risks facing BT. More questionable is Oftel'a proposal to introduce a cap on the wholesale prices BT charges other operators to connect to its network. This would replace the present, detailed regulation of network charges. The move might; as Oftel suggests, help reduce retail prices. However, Oftel does not appear to intend to impose similar con- licence question.

Although BT yestarday expressed disappointment with anti-competitively. Oftel has made go to the MMC.

There is much to be said for the licence amandment, givan BT'a continuing market power. However, Oftel's position would be stronger if there were a better mechanism for BT to appeal against Oftel decisions under this within the presant regulatory framework. To create an appropri the new powers would require pri-

No longer the new kid

Europe's largest futures and options exchange is facing fresh challenges after 14 years of rapid growth, says Richard Lapper

ben Mr Jack Wigglesworth and a group of colleagues sought the support of the London Stock Exchange for a new financial futures market late in 1980, they were given the cold shoulder.

After tea and cream cakes delivered by "pink-liveried flunkeys". Mr Wigglesworth, a blunt-speaking Yorkshireman, recalls: "They politely told us this was not the sort of activity we want in the City". But Mr Wigglesworth, chairman of the London International Financial Futures and Options Exchange, now thinks the rebuff was a blessing in disguise. It was the best favour they could have done us," he

Forced to rely on its own resources, the market has grown impressively since formation in 1982, consolidating its position as Europe's largest derivativas

exchange.

Lost month, the market traded more contracts than in any previous month. In the year to date, husiness is 42 per cent higher than a year ago. Average volumes are currently running at 762,492 a day compared with fewer than 30,000 con-

tracts a day 10 years previously.

Liffe's style, epitomised by the brash colours of its floor traders, has always contrasted sharply with the soher suits of the Stock Exchange and the rest of the City. In recent months, a similar contrast has been evident between the fortunes of the two institutions: while the exchange has sacked its chief executive. Liffe has gone

Millions of contracts traded (nearest million) Chicago Board of Trade Chicago Mercantile Exchange Chicago Board Cotions Exchange 184 Boisa Mercadoros & de Futuros (Brazilia London International Financial Futures Exchange 153 Mate Deutsche Terminborse American Stock Exchange 48 Landon Metal Exchange 47

Source: Futures & Options World (according to calculations of Futures Industry Associ)

strength to strength. Liffe is poised to make further strides in the next few months when new trading links with the giant Chicago Board of Trade and the Tokyo International Financial Futures Exchange are due to come on stream. The market's merger with the London Commodity Exchange, Europe's largest commodity futures market, is also set to come into effect later this year. The links should allow Liffe to offer a wider range of contracts and help it

Top 10 exchanges

to increase its overall efficiency.

Liffe's importance in the City is gradually being recognised. Mr Anthony Belchambers, chief executive of the Futures and Options Association, a derivatives trade body, says the market is "no longer the new kid on the block" and "now more of an institution". Mr Wigglesworth, meanwhile, describes it as the "fourth pillar" of the City, alongside the stock exchange, the Lloyd's of London insurance market and the Bank of England.

The market's success owes much to timing. Its launch in 1982 coincided with the liberalisation of international capital flows and rising volatility in bood, money and equity markets. These trends increased the demand for financial futures and options - derivative products based on the performance of an underlying bond, share, index or curreocy rate - which are used hy investors either to speculate on or protect themselves against moves in the markets.

"It was easy in hindsight because there was a natural demand. But getting something like this together was a tall order and they had the initiative," says Ms Rosalyn Wilton, a Liffe board member in the late 1980s who is now with Reuters, the international news and financial information group.

The market has also benefited

from its consistently opportunistic approach. It has often stolen marches on its European competitors, beginning trading of futures

and options contracts in German and Italian government bonds, for example, before the formation of domestic derivatives exchanges in either country. "It seized the high ground in being the first European financial futures exchange," says

Mr Belchambers. Mr Daniel Hodson, chief executive, says that hy providing a market for large hanks and brokers to hedge their risks. Liffe has helped make London a magnet for international trading in over-the-counter derivatives (deals done by hanks and securities houses direct with their commercial customers outside

the framework of an exchange). Last year London was the higgest market in the world for interest rate and currency swaps, two of the commonest forms of over-thecounter transaction. Average daily volume amounted to \$18.53hn and \$1.42bn respectively - more than a quarter of the international total according to Suraps Monitor, a New York trade publication.

his year's buoyant volume figures indicate that growth is again picking up after a hiccup last year, when turnover declined by 13.3 per cent. The fall was partly in response to the Barings crisis, which led many firms to rein in their trading activities. Lower volatility in world financial markets, which reduced demand for derivatives products, was another contributing factor.

Growth had averaged 50 per cent a year between 1982 and 1994. In 1994, its record year, invisible earnings generated by the market amounted to £750m, according to its own figures.
Yet desplte this bright picture,

two sources of tension within the market are increasingly evident. First, there is disagreement among exchange members about tha cost and desirability of further expanding the trading floor.

Liffe only moved into lts head-

But it is already taking steps to increase space for additional floor traders. These are needed to trade new contracts listed at the market in recent years, as well as to cope with the increased volume.

Last year the market agreed to rent two floors of the Stock Exchange's headquarters, including the floor vacated by the exchange shortly after Big Bang in 1986. Now it is again huilding up funds for a move to bigger premises.

The aize of the expenditure which might be required for the expansion put hy some at as much as £280m (\$429m) - is reviving demands among some Liffe members - in particular bigger banks with large floor staffs - for a more rapid move towards electronic trading systems. At present, most dealing at the exchange still takes place through the so-called "open outcry" system of face-to-face dealing. Electronic trading is largely confined to a 90-minute period after the trading

floor has shut down. These banks argue that in order to contain costs more trading should be done electronically. In particular they think that some new products, such as the Euroyen contract to be introduced this year. should be traded exclusively by

electronic means. This argument over the hest method of trading has spilled over into current discussions about how Liffe should use its reserve funds of between £110m and £120m. These have been built up through a charge levied on each contract traded and fees paid by members.

Last year the market handed back a rebate of £30m to members. But some members, thought this was not enough.

Mr Hodson argues that the retention of a substantial reserve is justified as a contingency fund to allow the market to continue in an emergency and to finance new premises. Not everyone agrees. "We simply don't need to be amassing this great war chest for a future floor," says Mr Alex Cooper, floor manager for Crédit Lyonnais Rouse, the futures subsidiary of the French bank. Another banker says: "Liffe is a very good successful exchange but it may not he if we trehle the size of the floor."

The second source of tension affecting the market is linked to the planned implementation of European Monetary Union later this decade. This would trigger sweeping rationalisation of the European bond and money markets which underpin many of Liffe's

most successful products. German bond and money market contracts, which could disappear

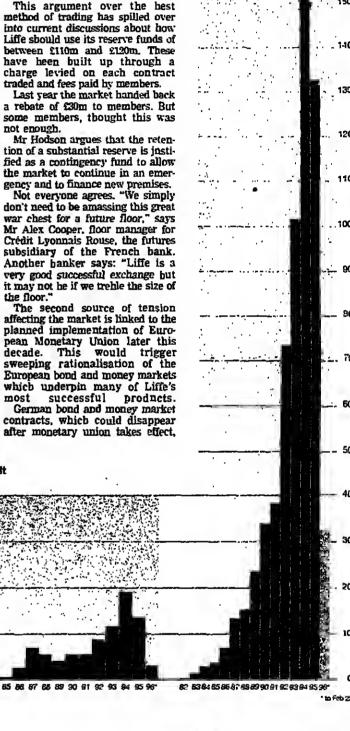
quarters at Cannon Bridge in 1991. account for about 50 per cent of the market's turnover. Yet Liffe will face tough competition from the Paris-based Matif and the Deutsche Terminborse in Frankfurt for any contracts denominated in the Euro. the proposed new EU currency. Such contracts might replace exist ing EU government bond and money market futures and options.

However, Liffe has already made some progress in addressing these issues. This month it announced changes to two of its most popular products to enable traders to settle contracts in Euros.

Nevertheless, most accept that it is still not clear whether Emu will be good or bad news for the market. What seems certain is that the sense of timing, which has been such a critical ingredient in Liffe's success to date, will once again be put to the test.

Liffe futures and options

Total annual contracts by volume



BSERVER

thought

Zesty Thai cooking relies on the generous use of lemons, so when prices of the essential fruit shot up earlier this month to Bt10 (33 cents) from the usual Bt3, it injected a sour taste into the mouth of a government which is constantly banging on about the importance of controlling inflation. But ever-resourceful That prime

Contracts by annual volume (million)

slavish acolyte of conventional has a recipe for success. Why not mint more BtI coins?

Ha believes that lemon prices rose because there are not enough Bil coins for market vendors to make change and more coinswould allow prices other than multiples of 10 to be easily

Bill as a result, of course, the idea's author could still be left looking a bit of a lemon.

Beefeater

Timing, as they say, is everything. Pity then Bill Cash, the voluble cheer-leader-chief of the Eurosceptics, for choosing yesterday to launch his alternative "blue paper" on bashing the Brussels institutions

Not only did the BSE revelations

Euro-issue ahead of today's debate on the intercovernmental cooference, but the MP for Stafford's accompanying press release contained the unfortunate phrase: "While Bill Cash considers the tone of the White Paper is lack of beef and an underlying philosophy of appeasement." At least on this occasion, Cash did not take the opportunity of blaming the Germans.

Right concept Why did Dickson Poon, the Hong Kong-based boss of Dickson Concepts, pick James Capel as joint broker for the planned flotation of Harvey Nichols, his Knightsbridge store? Surely it could have nothing to do with the fact that he met his current wife,

Pearl Yu, when she was working as an analyst at James Capel? Pearl had been following the fortunes of Dickson Poon for James Capel and liked what she saw. She no longer works for Capel so there should be no problems about conflicts of interest in the forthcoming flotation.

Skirted issue

■ So much for President Jacques Chirac's promises to reduce the extravagance of the French state. not to mention all those resolves to

declare war on hureancracy by paring back the number of political staff surrounding ministers. The corridors of power would seem to be filling up again nicely.

Elizabeth Hubert, for instance, the colourful former minister of health who was reshuffled last antumn out of a joh by prime minister Alain Juppe, has managed to re-enter the government through a side door in the Matignon. She is set to become an adviser to her former boss on social questions. Nor is she alone. Fresh-faced François Baroin, the former government spokesman, has also popped up in an advisory capacity in the prime minister's office.

Back at ministerial level they are not. But at least they are doing their bit to belp keep down the embarrassingly high levels of national unemployment

Beyond the pale The Philippines has long been notorious for corruption, though things might be changing. Certainly President Fidel Ramos is proving mightily sensitive to hints

of graft in his administration. The secretary of state for health, Hilarion Ramiro, has been given the push, pending an investigation into allegations of inflated bills for drugs and equipment. As a former regional health officer under the Marcos regime, Ramiro was perhaps never a tactful choice. Among the piquant details is the

demanded a car from a foreign health company, in exchange for signing a medical supply contract. 'I was only joking," Ramiro told reporters. His boss is not amused.

allegation that Ramiro had

Eve off the ball

Spent too long in the scrum? A couple of England rugby fans got their wires crossed, and braved the Irish sea last weekend to cheer on their team in Duhlin. Only problem was, the game was played at Twickenham.

Roy Holt, vice-chairman of the Witney Rughy cluh admitted that he and six other cluh members had made a mess. "We're a bit red-faced, it looks as if we are a bunch of idiots." However, the intrepid travellers made the best of a had fist and watched the game on TV and had a good weekend in Ireland instead.

The good gentleman had apparently booked their tickets last season in the expectation that they would be watching Ireland play Scotland - a game played on January 20.

Horrid task

The best-known store in London, Harrods, has just advertised for some "pro-active" fire fighters to join its staff. Not for clearing old stock, surely?

Financial Times

100 years ago The Cuban revolt

According to a Havana cahle, which reaches London by way of New York, the "loss resulting" from the first year of the Cuban revolt is estimated at 134 million dollars, or, in round figures, 27 million sterling. It would be correspondent means. If he refers to the loss to Cuban trade. then Cuban trade must have grown without anybody's knowing about it, seeing that the total exports from the island are about 90 million dollars per annum. If, on the other band, he means the expenditure of Spain on the civil war, then it is from Madrid that such an estimate should come. We ourselves should think that a considerable portion of the 134 million dollars has been squandered on the despatch of unreliable cables from the seat of war. The Spanish colony of Cuba gained its independence in 1899 The Second War of Independence

50 years ago **Dutch** pacts

It is learned that the Netherlands and Portuguese Governments have concluded a monetary agreement fixing the rate of exchange at 10.69 guilders to 100 escudos. A commercial treaty was signed at the same time. Both pacts are to remain in force for one year.



straints on the prices other operators charge BT; there has been concern about mobile phone oper ators' charges for network access Lack of a reciprocal constraint could prove unwarranted assistance for new entrants.

these pricing recommendations, it should be relieved at the concessions it seems to have won. But the pricing formula is overshadposed amendment to BT'a licence. This would give Oftel the power to dacide whether BT was acting clear that pricing proposals stand or fall together with this plan hence the chance that the row will

against its decisions. Appeals new power would be cumbersome ate appeals mechanism to match mary legislation, which Oftel regards as politically unachievable at present. But in the absence of such legal revision, it is hard to see the MMC or the warring parties themselves arriving at an acceptable, durable solution to the

divert attention from the

Fruit for

minister Banharn Silpa-archa - no economic theory, he - reckons be

If prices of the fruit escalate to

FINANCIAL TIMES

Thursday March 21 1996

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Government officials warn VAT exemptions will lead to deficit

Philippines budget under pressure

The Philippine budget is likely to plunge into deficit this year after posting two consecutive surpluses, because of a heavy dilu-tion of new consumption taxes by congress. Department of Finance

officials said yesterday.

Amendments passed in the House of Representatives since January providing more than 12 exemptions to the value added tax on goods and the enhanced VAT on services, which was introduced in January, would reduce government revenues by 22bn pesos (\$840m), officials said, The government posted a surplus

of 16bn pesos in 1995. "This completely overturns our calculations of a zero or positive budget surplus in 1996 and makes a mockery of introducing the

By Lisa Bransten in New York

US regulators took the firz out of

Spring Street Brewing's launch of

Internet share trading yesterday

by stopping the two-day-old experiment in cyber finance. Spring Street, a young Manhat-

tan-based brewing company, vol-untarily suspended trading in its

shares yesterday after the Securi-ties and Exchange Commission (SEC) requested that trading he

The company launched its elec-

tronic trading system two weeks

after completing the first ever public offering over the Internet,

That offering was done

under a special SEC regulation

that allows small companies to

raise less than \$5m without

which it raised

3,500 investors.

an underwriter.

halted pending further review.

Nene Guevara, undersecretary of

"We are now looking at a consolidated public deficit of around

1.5 per cent of GNP."

Ms Guevara said congress had misconstrued the exemptions as heing "pro-poor" when in fact they were specifically targeted at middle class consumers. For example, the exemption of the 10 per ceot tax on processed food, which would cost the govern-ment 17bn pesos alone, would almost wholly henefit middle income groups, as unprocessed food, which makes up the bulk of the poor's food spending, bad already been excluded from

"You can hardly describe exempting real estate transactions of 1m pesos or less as being

US regulators call time on

to appeared concerned that the

company was acting as its own

transfer ageot. Under the Wit-Trade system.

named after Spring Street's Wit

ale, potential huyers and sellers

post offers on a hulletin board at the company's site on the World

They can then e-mall, tele-

phone or write to a counterparty

and agree a price.

Once buyer and seller agree a

price the purchaser must send a

cheque to Spring Street, which

transfers the money to the seller

Mr Tim Flanlgan, a lawyer

with Mayer, Brown & Platt in

Washington, said compaoles

could not, in general, act as clear-

ing houses for their own shares.

and the shares to the buyer. One advantage to the system is

that no lees are baid to

broker-dealers.

Wide Web.

the poor or for that matter: exempting rent-a-car companies and tourist buses," said Ms Guevara. "What will harm the poor is the impact this will have on the wider economy, including higher interest rates, higher inflation and the lower growth resulting

from deficit financing."
With prime interest rates above
13 per cent and inflation at 11.8 per cent, government officials have accused congress of acting irresponsibly for short-term polit-

Opposition senators, who could overturn the amendments before they are signed into law in June, doubt they have the numbers to reverse the process.

We will do our best in the Senate to fight the lower house's

ments for trades. The tiny com-

pany is only three years old, and

in its last quarter made a loss of

While the national exchanges

\$106,111 on \$239,691 in revenues.

such as the New York Stock

Exchange and the Nasdaq stock market are hardly threatened by

Spring Street's minute volumes,

there are concerns ahout

companies that circumvent tradi-

tional markets. Mr Marc Beauchamp, a Nasdaq

spokesman, said he was con-

cerned ahout the potential for

fraud in such an unregulated

marketplace. "Investors could end up buying non-existent

and not get anything in return,"

Street will eventually be able to

resume trading its sbares

through the Internet, possibly by

Mr Klein is confident Spring

shares from non-existent beof

Angara, minority leader in the 24-member senate. "It is difficult to fight this when it is the government's supporters who are mangling the administration's

fiscal programme themselves." Government officials said that the Philippine three-year economic turnround, which has won International acclaim and hoosted direct foreign invest-ment, could fail to pick up further momentum unless the country could guarantee long-term

fiscal responsibility. Failure to enact a comprehen-sive tax reform hill this year or to reverse the VAT amendments would confound the government's efforts to spend more on infrastructure, boost domestic borrowing, officials said.

UK evidence links BSE brewer's Internet share trade to humans

Continued from Page 1

to protect all European consumers. Any new measures would also have to protect British consumers," an official said.

tonnes of beef exports to the EU went to France, Italy and the Netherlands. Germany imported

only about 200 tonnes. The Brussels official pointed out that the Con "erred on the side of caution" in drawing up the EU's present regime of controls on beef production. "Even though there has never been any evidence to suggest humans could contract BSE, EU policies were based on the principle that such a link could not be excluded," the official

out accompanying measures to control beef production in the UK. "EU legislation is designed

Three German states have ban-ned imports of UK beef because of fears over BSE. However, last year most of Britain's 277,000

THE LEX COLUMN

Paper tigers

Yesterday's four-fold profits increase from Sweden's SCA puts the seal on a vintage year for Europe's paper pro-ducers. The future looks much less promising. The price of pulp, the basic raw material, has halved to \$500 per tonne in less than six months, dragtonne in less than six months, drag-ging down prices for coated paper, line paper and containerboard. Spot prices have fallen as low as \$450 a tonne in some instances. Moreover, daspite sev-eral months of destocking, pulp stocks are still at near-record levels. As a result, demand has remained subdued as customers defer orders to secure a better price. This will lead to a sharp-reduction in profits this year - some brokers are estimating an aggregate fall of nearly 50 per cent for Europe's top 15 paper companies - and in all likelihood a further earnings decline

At least the industry is showing more discipline than during previous downturns. Northern European for-estry groups, like Stora and MoDo. have all cut production. And most pro-ducers are putting plans for new capacity on bold and channelling money into higher dividends. SCA raised its payout by 27 per cent yester-day. Consolidation, including the merger of Kymmene and Repola in Finland, should also belp create a more orderly market.

Nevertheless, valuations are looking stretched. Buying of cyclical stocks, primarily by optimistic US investors, has driven many paper company share prices up by over 30 per cent since Jannary. SCA is now trading on 10 times earnings. With a turn in the pulp price unlikely before 1997, that looks too high.

Digital video discs

The digital video disc was supposed to do for the depressed consumer electronics industry what the compact disc did in the 1980s, but its gestation is proving almost endless. There is ent of som Philips' veiled threats to delay its launch of DVD players. Philips lost the argument with Toshiba and Matsushita over a technological standard for the product. Nonetheless, Philips is probably right to claim there will be no mass consumer market for the video disc if there are incompatible standards in different parts of the world. And DVD players have little chance until they have a recording function.

The film studios are trying to have their cake and eat it. Video sales are booming, so Hollywood does not want to sacrifice a highly profitable business until they see a proven alternaShare price relative to the Affertuation General Index

tive. Meanwhile, it is easier for them to protect copyright if DVD machines cannot record from talevision or other discs. Nonetheless, the prerequisite for success is the ability to supply a prod-nct range and quality which will encourage consumers to replace their, video recorders.

There are some winners from the delay, like the substantial video duplication operations of Carlton and Rank. Ironically, it is the Hollywood studios who could be the biggest losers. After all, it was the music companies that really cashed in on compact discs; meanwhile Philips' consumer electronles division, which fathered the CD, is virtually worthless.

BT's profits look set to fall following yesterday's dracomian statement from Oftel, the industry regulator. Oftel estimates its price cap proposal will slash operating cashflow in BT's core regulated business by £1.2bn over the next five years. BT's other businesses - such as multimedia, mobile commu-nications and international expansion kely to make up the deficit. Indeed, many will absorb increasing amounts of cash until early next century. BT may be able to challenge ele-

ments of Oftel's proposal. The regulator's assumption that unit costs can be cut by 41/2 per cent a year looks particularly vulnerable. During a period when BT shrank its workforce by 100,000, unit costs fell only 31/2 per cent a year, with roughly 140,000 employees left, similar progress will be hard to achieve. Similarly, the principle of giving Oftel powers to police anti-competitive behaviour is uncontentious, but the regulator's precise plan contains too few checks and balances. Unless

Oftel gives ground on these points, BT will have a strong case to take it to the Monopolies and Mergers Commis-

But even if BT wins these points that will be cold comfort for share holders. The main issue to profitabil-ity: Offel bas retreated from its extrema suggestion that BT's return on capital should be as low as Sper cenf. But the new figure of nearly 13 per cent will still cut annual profits by over 21bn. It could probably also be defended at the Monopolies Countils

on. This is bad news not only for BT but This is bad news not only for Ba autalso for rivals like Mercury Communicationa and the cable televising groups: As BT cuts prices, they will have to follow suit. But the prospect of seeing its competitors in difficulty will be only the flimslest silver lining in a dark clond.

UK banks

Bank stocks, widely viewed as a proxy for bonds, dramatically under performed the stock market during the recent sell-off. This may seem logical enough. The market rout was, after all, sparked by concern about inflation and higher interest rates, and it is received wisdom that inflation encourages irresponsible borrowing, and higher rates cause defaults, depressing banks profits. But in reality the link is more sub-tle. Given the low level of current

interest rates, there would probably be at least some slack before higher rates became painful - arguably, not until the base rate climbed about two points to 8 per cent. And gradually rising rates might allow banks to increase margins - partly because they pay vir-tually no interest to some depositors. Furthermore, banks should be less vulnerable to bad debt than at the end of the 1980s, since they have reined in lending substantially, if nor by as much as they like to pretend:

Likawise: accompanied by hinsustainable eco-nomic growth tends to fuel excessive borrowing, modest inflation leading to modest loan growth could be viewed as positive. The snag is that using up excess capital by lending would make share buy-backs - on which the mar-ket has set its heart - less likely. If the highs and lows of the current cycle do prove less extreme than last time, the correlation between bonds and banks, which is, after all, a relatively recent phenomenon, could well

> Additional Lex commen on Beazer, Page 18

in settle

The SEC would not comment "I suspect that is where the SEC hiring an outside broker-dealer to on the action, but Mr Andrew Klein, Spring Street's chief execuis nervous," he said. handle the trades, "It's not insur-In its one full day of trading. mountable," be said. "It's just a Spring Street got four commithive, said the regulators he spoke

Continued from Page 1

ny's being awarded a district heating contract in Lelpzig-Lippendorf, in eastern Germany. in March 1995.

The letter, written by the Commission to suppliers and customers of Powerpipe asking for information, also states; "should it be proved that this is the work of a collective boycott, it could represent a serious violation of Article 85 of the EC-Agreement", the European Union law governing investigation of presumed violations of competition rules. If the suspected companies are found guilty, they may have to pay heavy fines. The six companies suspected to be members are ABB, three Danish companies -Logstor, Tarco and Starpipe, and two German-based companies -Panisovit and Isophus.

temperatures and more sun in Spain, Portugal France, the British Isles, the Benefux, Germany

and the Alps. Depressions over Portugal, the British Isles and southern Scandinavia will

The Commission's letter to Powerpipe suppliers and customers asks them to "forward copies of all documents relating to possible contacts between your company and manufacturers" of insulation pipes.

The Commission has also been preparing letters to be sent to the suspected cartel members questioning them on the evidence gathered. Details of the workings of the suspected cartel have emerged. Members apparently sought to allocate among themselves all contracts worth more

to persuade Powerpipe to give up

lier contract in eastern Germany. this time in Neu Brandenburg. several members of the suspected cartel mounted a concerted effort

the contract during which it was explicitly offered membership of the circle. It includes references hy senior executives from suspected cartel members to how the "circle" operates under the cover of the European District Heating Pipe Manufacturers Association. an industry trade body.

The executives acknowledge the existence of frequent contacts orchestrated by ABB officers.

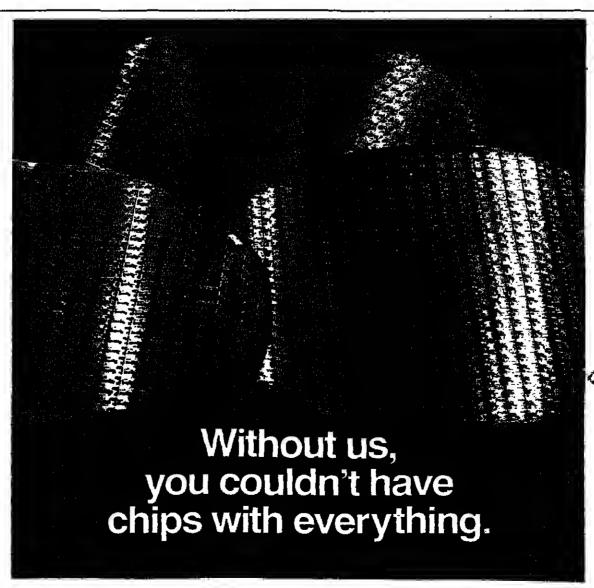
Brussels suspects ABB is one leader of heating 'cartel' take business in markets in

which the cartel was operating. It was made clear that the consequences of not co-operating would be concerted action by cartel memhers to freeze Powerpipe out of business, in part through aggressive pricing by cartel mem-bers on contracts bid for by the Swedish company.

ABB said yesterday: "We have no comment as long as the investigation is going on."
Isoplus said: "We are not mem-

bers of a cartel". Panisovit and Tarco refused to comment. Logstor said: "We have and will continue to help the commission in any investigation in any way we can. Further than that, we have no comment." Mr Klaus Skjodt, managing director of Starpipe, confirmed he had been contacted by Commission investigators, but be refused any further comment.

than DM100.000 (\$68.000) in a between themselves in the course of attempts to keep the cartel in number of Europeau markets. operation and state that they are But some menthers have complained that others have broken this understanding and accepted These contacts led to co-ordicontracts unilaterally. nated moves to offer Powerpipe assured market share in Sweden Evidence with the commission has also established that after and several other European marthe award to Powerpipe of an earkets if it stopped attempting to FT WEATHER GUIDE **Europe today** A frontal depression west of southern England will produce cloud and rain in southern Ireland, England, France, south-west Germany, the Atos. Belgium and the southern Netherlands. The Alps will have snow above 1,500 metres. High pressure over the western Mediterranean will cause dry and sunny conditions over Spain, Portugal and the Balearic Islands, Morocco. Turnsia and the Canary Islands. Temperatures will rise to about 200. The eastern Mediterraneon will remain wintry. Deprecisions over Turkey will cause cloud and rain or showers in Turkey, Cyprus and Israel. A high over Scandinavia and north-western Russia will give calm, dry but rather cold conditions. Five-day forecast The high over the western Mediterranean will join the Russian high in the next low days. Depressions will persist over the Atlantic and the eastern Mediterranean. Mild nir will be driven north through south-western Europe. It will become springlike with increasing



Today's explosion of information technology would be impossible without integrated circuits, or chips. Turning silicon wafers into finished chins is a highly combisticated process. Most fabrication is performed either within a married and a

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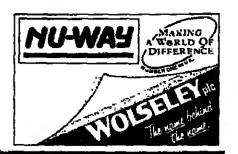
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FINANCIAL TIMES COMPANIES & MARKETS

Thursday March 21 1996 OTHE FINANCIAL TIMES LIMITED 1996



IN BRIEF

10 To 10 To

Rockwell rises on sale expectations

Shares in Rockwell, the US manufacturer and defence group, rose almost 5 per cent on renewed suggestions that it might sell its defence and aerospace operations. Rockwell refused to comment. Aithough the company has become less dependent on defence in recent years, 28 per cent of its \$13bn sales last year were to the US Defence Department and the NASA space agency. Page 16

Agreement reached over Azucarera Générale Sucrière of France is poised to advance in Spain's sugar sector as the co-owner of General Aznearera, the second biggest domestic sugar producer, through a Pta16hn (\$128.9m) deal with Banco Central Hispano and Acor, Spain's third-ranked sugar company. Page 14

CCF records 12th earnings rise Crédit Commercial de France, the banking group, has reported its 12th consecutive annual increase in net income. The bank recorded a 2.3 per cent increase in net income to FFr1.2bn (\$237.8m) in 1995. Page 14

Lehman climbs to \$104m in quarter The surge in US mergers and acquisitions activity was evident when Lehman Brothers, the investment bank, said it was working on deals with a total value of \$58bn at the end of February. Lehman was reporting its first-quarter results, which showed net income of \$104m, an increase from \$45m in the same period a year ago. Page 16

Sun Hung Kai optimistic after 5% rice Sun Hung Kai, one of Hong Kong's largest property groups, has announced a modest increase in profits for the six months to the end of December, but struck an optimistic note about prospects for the Hong Kong market. Its net profits rose 5 per cent to HK\$5.15bn (US\$666m), Page 17

Westpac to buy back 95m sharesWestpac, one of the big four Australian banks, has announced plans to buy back and cancel 95m shares through stock market purchases. It is the first of the big Australian banks to announce such a schame under "regular" circumstances. Page 17

H&C to end fast colonial link Harrisons & Crosfield, the congiomerata which began life as a 19th century tea trader, is considering severing links with its colonial past by floating the palm oil plantations husiness in Papua New Guinea. It is estimated that Harrisons could raise 230m (\$46m) from a flotation of its 54 per cent stake.

Restructuring and US buy help Weir Shares in Weir Group rose 23p to 258p after the pumps and engineering business announced a 50 per cent increase in profits for the year to December 29. The rise reflects the benefits of last year's reorganisation and maiden full-year contributions from EnviroTech, the US pumps company acquired for \$210m 18 months ago, Page 18

Canada landa aliver production 'revival' A "mini-boom" in silver production is taking place, according to the CRU International metals consultancy. Last year Canada lead the way and "a surprise revival" is also occurring in the US. Page 19

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Profits surge fivefold at SCA

Swedish forestry group rounds off a record year for the sector on the back of strong pulp prices SCA, Europe's leading pulp and pean economic growth had lifted to further production cuts fairly turn. The group said its 1995

paper group, yesterday rounded off a record year for Swedish forestry by reporting a fivefold surge in 1995 profits from SKr1.06bn to SKr5.73bn

It means combined profits for Sweden's four biggest forestry groups - SCA, Stora, MoDo and AssiDoman - rose nearly three times from SKr8.17hn to SKr23.3hn, mainly because of much stronger prices for pulp and most paper grades.

But, echoing its competitors, SCA warned of tougher conditions in 1996, saying slower Euro-

Moving

faster to

stay with

the pack

ver popular and urbana. Mr Louis Schweitzar, chalrman of France's

state-controlled Renault vehicles

group, let his mask slip a little

yesterday after aggressive ques-tioning from both sides of the

Channel on the group's poor 1995

In analysts' meetings in Paris

and London, Mr Schweltzer

reneated his view that Renault's

41 per cent drop in net profits to

PFr2.14hn (\$425m), announced on

Tuesday, stemmed largely from

However, he could not hide the fact that the figures have set

back hopes that the French gov-

ernment - which still owns 53

per cent of Renault - might dis-

pose of more shares in the near

"It is not often fund managers

tell you they won't buy a share at

virtually any price," says ona analyst. "But that's almost the case at Renault." Even an upturn

in the market, good first-half results and signs that the crucial

naw Mégane mid-sized range is

selling well may not be enough to

Renault blamed weak Euro-

pean demand, currency deprecia-

tion for the swing to a FFrl.7bn

operating loss at its core car divi-sion after profits of FFr289m in 1994. West European car sales

rose just 0.6 per cent last year,

while demand in France, Ren-

ault's home market, was hit by

The company, like other north European carmakers, also suf-

fered a competitive disadvantage

compared with counterparts,

such as Fiat, based in countries

with weaker currencies. And Renault was hit by the replace-

ment of the well-regarded R19,

which competes in Europe's big-

geat car segment, with the

explain last year's results," says Ms Sabine Bitmel, an analyst at IMI in London. Like many coun-terparts, she is disappointed Ren-

ault did not signal how its results

were deteriorating last year. Most analysts were forecasting a loss of about half the size. Some were

also dissatisfied that the com-

pany did not hint at earnings this

In an interview, Mr Schweitzer

said Renault had been taken by surprise by the severity of the downturn last year - explaining why analysts may have felt ill-informed. The unpredictable mar-

ket is why he says it is "not fair"

"But all that is not enough to

December's strikes.

convince hardened investors.

factors beyond its control,

inventories and undermined quickly," he said.

Pulp prices have fallen sharply since peaking at \$1,000 per tonne for long-fibre grades last October, and prices for containerboard, coated magazine paper (LWC) and fine paper bave been

Mr Sverker Martin-Lof, SCA chief executive, said pulp prices had almost halved in less than six months to between \$500 and "High inventories ought to lead

Renault head surprised by severity of downturn

Rough ride

"We see no reason to paint an overly black picture, but it is going to take a few more months before we see where the business cycle is beading," he added. Analysts say SCA's profits will slump below SKr5hn in 1996.

which would be more resilient than other Nordic forestry groups. SCA's bygiene and packaging operations, less cyclical than its graphic paper husi-nesses, should cushion it from the worst of the market down-

Operating Income by division

results had been lifted by its purchase, for more than \$1bn, of a 75 per ceut stake in PWA. Germany's leading pulp and paper group, at the start of last year.

It said PWA had done better than expected, contributing SKr1.08bu to profits, or SKr3 a share, against an initial estimate of SKr1. Group operating profits jumped from SKr1.61hn to SKr7.35hn

after sales surged from SKr33.7bn Graphic papers fared best, with profits leaping from SKr495m to SKr2.29hn, while packaging prof-its jumped from SKr910m to SKr2.37hn.

The restructured hygiene divi-sion saw profits rise from SKr315m to SKr1.41hn, but this was only because of PWA. SCA's core Möinlycke unit was hit towards the year end by rising raw material costs and lower

nappy prices. SCA said pulp and paper mar-kets started falling in the second

called its "disappointing" performance, the dividend was slashed

tion in earnings at the year end. Stripping ont an exceptional item of HES964m in 1994, and this interim's tax write-back

profits were down 7.9 per cent, from HK\$292.17m to HK\$270.65m Hopewell Holdings' biggest contribution to profits came from interest income on share-

rental income. There was little good news for

The centrepiece of the lates spin-off, which is to be called Consolidated Real Estate and Transport Asia (Creata), is the sonth China superbighway and related roads and property. According to Mr Nien, 38,000 vehicles a day were using the road at the start of last year; by December, the number had risen to 50,000. Just before the Chinese oew year, almost 70,000 vehicles

The group is also in talks with the Guangdong provincial gov-ernment to raise the toll charge. Goangzhoo ringroad, as Hopewell executives grapple with provincial government officials in an effort to amend the joint venture contract. Cepa results, Page 17

half of 1995, but fourth-quarter profits of SKr1.42bn were still much stronger than SKr385m in The dividend is lifted from SKr3.75 per share to SKr4.75. Lex, Page 12 Digital shares

drop as fears grow over US PC sales its shareholders. It said that

81.19.

By Tony Jackson in New York

Shares in US personal computer manufacturers were battered yesterday as Digital Equipment warned of a slowdown in North American PC sales in the current quarter, which would affect its earnings overail. In early trading, Digital shares fell \$10 . to \$56' ., a drop of 16 per cent.

Digital, which said in January that It was quitting the consumer PC market and focusing on PCs for commercial use, said it had started to see a slowdown in the commercial market in February. At the beginning of March it cut the prices on its machines by up to 26 per cent.

This formed part of a general price war among suppliers of commercial PCs, including Com-paq. IBM and Dell.

However, yesterday's announcement surprised the market, in particular the company's warning that difficulties in PCs - which account for only 15 per cent to 18 per cent of Digital's revenues - would cause the group's earnings to fall short of

forecasts in this quarter.
Digital said yesterday it had
encountered significantly
reduced demand and increased price pressure, particularly in

North America. It added that the problem had been compounded by over-stocking in the retail chain of its The company said that having introduced price cuts and promotions in response to the slow-down, it had realised in the past

few days that the severity of the

situation should be disclosed to

the business continued to per-form well. On that basis, it expected a significant improvement on last year's figure of \$0.44 a share. By lunchtime, shares in Compaq had fallen 6 per cent, oown \$014 to \$37%, IBM bad fallen 6 per ceut, down \$5% at \$116, as bad Hewlett-Packard, down \$5%, at

earnings for the quarter were

likely to fall short of estimates.

which range from 80.87 a share to

However, it said that the rest of

\$95%. Dell Computer had dropped 5 per cent, down \$1% at \$31%. The drop in PC makers' shares affected technology stocks gener-The Nasdaq index fell 10.92 to 1101.58, while the Pacific Stock

Exchange Technology Index feli 4.59 to 206.23, a drop of 2.2 per ment for Digital, which has been

in profit for only five quarters after net losses totalling \$1.7bn before special charges in the three years 1992-94. Like IBM, the company bad

been hit by its reliance on mainfrome computers, and went through a long restructuring period during which its survival was in doubt. However, the recovery in its fortunes in the past two years has pushed its market value back up to almost \$10bn.

neWebber was reported to have lowered its forecast for the quarter from \$1.03 to \$0.70 a share, and to have warned that difficulties in the PC market could per-

Hopewell tax boost fails to halt slide

By Louise Lucas in Hong Kong Hopewell Holdings, the property

company owned by Mr Gordon Wu, yesterday reported a sharp slump in interim net profits to HK\$466.4m (US\$60m) from HK\$1.26bu in 1994, in spite of an unexpected earnings boost of HES195.7m from a tax write-In line with what analysts

to 3 cents from 10 cents. The figures for the six months to December 31 suggest Hopewell is on course for a steep decelera-

holders' loans. This accounted for around HK\$200m of net profits, compared with the second biggest earner, HK\$150m from

investors on the progress of Mr Wu's endeavours to cut the company's HK89bn corporate debt. In January Mr Wu revealed plans to spin off Hopewell's roads and transport projects and said he had received commitments totalling HK\$5hn out of a projected initial capital raising of HKS9hn, Yesterday directors were less forthcoming, clting fear of reprisal from the stock exchange for allowing information to trickle ont. Mr Robert Nien, director, said discussions with investors were under way: What remains is negotiation or terms and pricing."

a day were recorded, he said.

This announcement appears as a matter of record only

£16,300,000

funding for the Management Buy-Out of

led, arranged and financed by Mercury Development Capital

Debt finance arranged and provided by The Royal Bank of Scotland plc

Acquisition Finance

Adviser to management Deloitte & Touche Corporate Finance

Reporting accountants Arthur Andersen



BRITAIN'S LEADING INVESTMENT HOUSE Mercury Development Capital is a division of Mercury Asset Management plc, regulated by IMRO

AT&T's Internet service to

that it would not use Lotus Network Notes service and was shifting its focus to open standard Internet software. At that stage AT&T said the Internet had made the Network Notes service, which connects Notes users over AT&T's telephone network, obso-

That decision was seen as a blow for IBM, which last year to develop Notes-based systems acquired Lotus Development, the for AT&T and other network software company that developed

Notes, for \$3.52hn. IBM's shares dropped sharply in the wake of AT&T's decision. AT&T's rethink was widely

seen yesterday as a bid to patch up relations between the two US companies. AT&T said it would use an upcoming version of Lotus Notes software as the foundation for many of its Internet products.

available from the autumn and will be used for electronic commerce, marketing and publishing as well as collaborativa services. AT&T also said it would accelerate the deployment of Lotus Notes software in its internal management systems, and would work with IBM and its Lotus unit

form "electronic communities" which take in their customers, suppliers and employees who could then exchange electronic mail and work collaboratively over AT&T's telephone network.

> of the Internet, has raised questions about the future of Notes which is based on proprietary software. IBM and its Lotus unit have been scrambling to adapt the Notes product to the new Internet environment.

> sppears to indicate that it believes IBM will succeed in adapting Notes to the internet. In early trading yesterday, IBM's shares fell \$5% to \$116.

Kodek



average position", says one ana-

In spite of efforts to cut costs with new models, Renault's operating margins are believed to be 3-4 per cent lower than Peugeot-Citroën, its most direct competitor and one of Europe's most productive carmakers.

"I think our production costs are rather well in line," counters Mr Schweitzer. He admits, however, matters are different for engines, where Renault's costs are "not fully satisfactory". He admits Renault cannot

atand still. This week, he promised a cut in the average produc-tion cost per car by FF13,000 - or roughly 3 per cent - slashing costs by FFr4.5bn a year by the end of 1997. The company will take its cue from a cost reduction drive begun last year on the Lagunz mid-sized hatchback. • The improvement in Renault's

models has not always been reflected in their pricing and profit margins, in spite of the fact that current models are unrecog-nisable from the bland and poorly-huilt cars of the 1980s. Although praised in the media, the Laguna is often sold at a discount, whereas Peugeot's direct

Mr Schweitzer admits there is a pricing problem, stemming from the fact that Renault's image remains weaker outside France. makes its margins even more Renault faces a fundamental structural problem as a single

brand company, with a relatively small range of models, compared with multi-brand rivals. With only one brand, an important model change leaves the group relatively vulnerable. All carmakers face risks with

hig model changes. Old stock has to be cleared, often at low prices. while launch costs can be staggering. But a manufacturer with more than one brand can often time model changes to cause the least disruption.
Mr Schweitzer denies single

hranding is a "major handicap" and says Renault has no plans to change. He admits, however, the company has a problem with executive cars, where margins are usually biggest.

The combination of these factors explains why analysts are bearish about Renault this year. Many expect the cars side to stay in loss. Nor do they think Renauit's resurgent commercial vehicles side, which increased its operating profits fivefold last year to FF1978m, is big or strong enough to fill the gap in the long

Haig Simonian

use Lotus Notes software

By Paul Taylor in London

AT&T, the US-based international telecommunications group, said yesterday it would integrate some new Lotus Notes software with its Internet service offerings.
The aunouncement comes less

than a month after AT&T said

August, was designed to enable companies to use Lotus Notes to However, the rising popularity

Tha new Notes server will be

AT&T's change of mind

Ina enjoys 15% rise in life income

Ina, the Italian insurer, yesterday announced a 15.1 per cent increase in parent company premium income - which comes only from the life assurance activities - to 1.2,971bn (\$1.9bn) for 1995. It said pre-tax profit for 1995 weuld be about 50 per cent higher than in 1994, when the parent company reported a profit of L487.6bn before tax.

The company, whose shares are quoted in Milan and New York, said the percentage increase in full-year net profit would be slightly lower because of a higher tax charge. Consolidated group results will be announced in early May. Ina's investments increased 8.7 per cent to L33,000bn, and income from investments rose 12.7 per cent to L2.300bn at parent company level. Ina said the increase in investment income was mainly attributable to more favourable market conditions last year, combined with recent legislation which has allowed insurers to diversify investments and enter new

The company was partially privatised in 1994. Last year the Treasury, which once owned 100 per cent of ina, further reduced its stake to 34 per cent by selling a core holding to a group of investors beaded by Italian banks. The Treasury has been unable to press ahead with the sale of its outstanding shares because of depressed market conditions and the uncertain political outlook.

Andrew Hill, Mil

One-off gain distorts NCC result

NCC, the Swedish construction and real estate group, suffered a 76 per cent decline in pre-tax profits to SKr230m (\$34.5m) in 1995, mainly because the 1994 profit included a ene-time gain of SKr1.18bn. The company forecast that pre-tax profit would improve in 1996. Revenues last year slipped to SKr16.6bn from

If 1994's one-time gains, profits from associated companies and changed valuation of real estate are excluded, pre-tax profit mere than quadrupled to SKr424m in 1995 from SKr104m a year earlier. Increased costs also hit earnings, with total expenditure rising to SKr15.5bn last year from SKr15.3bn a vear before.

Profit en construction operations rose 23 per cent to SKr588m from SKr479m, with orders increasing 12 per cent in 1995 to SKr15.4bn. Losses on real estate operations narrowed te SKr64m from SKr663m. The Swedish construction market remained at record low levels in 1995, but NCC forecast that housing construction would improve in 1996 and 1997. It added that industrial construction would continue te increase, but at a lower rate than in 1995. Reuter, Stockholm

Greek oil group down 24%

Greece's Public Petroleum Corporation (DEP), the state-owned oil and gas group due to be floated on the Athens stock exchange later this year, yesterday reported a 24 per cent decline in consolidated 1995 pre-tax profits, te Dr23.2bn (\$96.2m), on sales up 12.2 per cent to Dr568bn.

Mr Christos Verelis, group chairman, blamed the fall on reduced margins last year on eil refining and the repayment ef Dr80bn in government subsidies under the terms of DEP's partial privatisation. The government plans to float 10 per cent

of the group in the last quarter of 1996.

The group plans investments of Dr144bn in npgrading its two refineries, extending two petrol station networks in Greece and expanding commercial activity elsewhere in the Balkans. Mr Verelis said DEP's goal was to consolidate its 60 per cent share of Greece's oil products market and build a 20

per cent share of the bunkering and retail market. The group's natural gas subsidiary, Depa, will start receiving Russian natural gas in July through a pipeline from Bulgaria. Depa has contracts to supply natural gas to Greece's electricity utility and 17 industrial companies, and will participate with fereign partners in three urban gas distribution companies being set up to supply domestic

Through its oil exploration subsidiary, DEP-EKY, the group will have a 35 per cent stake in a small effshore eilfield being Canadian-led group, close to an existing field off Thassos island. DEP-EKY will also participate in a new round of oil exploration in western Greece, where six onshore and offshore Kerin Hope, Athens concessions are being offered.

Mobile woes hit GN Store Nord

GN Store Nord, the Danish cable-laying and telecoms group, expects much better 1996 operating profits after posting a disappointing 1995 result, affected by mobile telephone losses. It attributed the fall in eperating profit, to DKr108m (\$18.9m) last year from 1994's DKr171m, to losses at Senefon, the mobile telephone company in which it has a 36 per cent share.

Sonofon was hard hit by a price war with Tele Danmark, the Danish telecommunications group, last year. "Sonofen gained a much greater number of subscribers than expected - tripling during 1995 to over 270,000 - and this will bring in much bigger operational profits in 1996," GN Store Nord said. It said the liberalisation of the Danish telecoms sector from July 1 would offer Sonofen new possibilities.

Sonofen, though it overtook rival Tele Danmark in mobile phone subscriptions, cost GN Store Nord an estimated DKr127m in losses in 1995, it added. GN Stere Nord's overall turnover rose 25 per cent, with financial items boosting profits by DKr76.4m, compared with the previous year's DKr6.2m. Net profit after minorities fell to DKr127.5m from DKr150.8m in 1994.

Belgacom consortium grows

Kredietbank and Credit Communal de Belgique, the Belgian banks, and Sofina, the Belgian bolding company, have joined the censortium bolding 49.9 per cent in Belgacom, the Belgian phone company. The three together have 5 per cent of the 49.9 per cent stake. Ameritech, the US regional phone company, holds 35 per cent; Tele Danmark has 33 per cent; and Singapore Telecom. 27 per cent. The deal was finalised

reflects

strength

in Italian

Safilo, the spectacles and

sunglasses maker and one of Milan's best performing stocks

last year, yesterday underlined Italy's international strength in the eyewear sector with a

near-doubling of net profit in 1995. It also forecast a 46 per

cent increase in operating rofit this year.

The group is aiming to expand further in 1996, belyed by the purchase this month of

83 per cent ef Smith Sport Optics, a US manufacturer of sports sunglasses and

Safilo is from a dynamic

gronp of medium-sized eye-

wear manufacturers, mostly

based in the Veneto in

north-east Italy, which includes Luxottica, Italy's

largest manufacturer, and De Rigo, both of which are quoted in New York.

Net profit et Safilo increased

from L13.4bn to L24.7bn

(\$15.9m) in 1995. Operating

Share price relative to the

Sep 1995

profit surged from L22.3bn to

L45.3bn, on turnover of

Last menth, Luxettica anneunced a 29.4 per cent

increase in net income for 1995, te L162bn. De Rlge announced a 42 per cent rise in turnover fer 1995, to L302bn, and is due to report

its profit for the year tomor-

LensCrafters chain ef specta-

cle stores, while De Rigo has set up a jeint venture to dis-tribute its Sting brand and a

new collection produced with

Mr Vittorio Tabacchi. Safilo

chairman, said yesterday the purchase of Smith Sport, for

abent L30bn, wenld

to the acquisition of Smith,"

The Smith acquisition

pushed up net debt at Safilo

from L61bn at the end of the year to about L115bn. How-

ever, it says it expects to bold

sales of L555bn.

with L330.

All three are expanding their share of the US market. Luxottica last year carried out an ambitious takeover of tha

L416bn, up from L326bn.

Source: FT Extel

eyewear

By Andrew Hill in Milan

Crédit Commercial de France, the banking group, yesterday reported its 12th consecutive annual increase in net income. The bank recorded a 23 per cent increase in net income to FFr1.2bn (\$237.8m) in 1995 after a sharp drop in provisions against bad loans.

Mr Charles de Croisset. chairman, said the results were fundamentally satisfying in an envirenment which is frankly bostile". But be stressed that the group in the past eight years had echieved

2.4 per cent above the return on government bonds. He said the CCF board had

predicted at the end of 1994 that the French economy was heading for slower growth and so had launched a continuing programme to cut costs. Banking revenues rose 0.3

per cent to FFr9.1bn, but the bank's general operating costs and depreclation charges increased 2 per cent ever the year te FFr6.5bn, dragging operating income down by 3.8 per cent to FFr2.5bn. However, the bank had

per cent to FFr723m during 1995 and the cover on doubtful loans had risen to 63 per cent compared with 56 per cent last time - from a total loan-book te preperty prefessionals of FFr28bn.

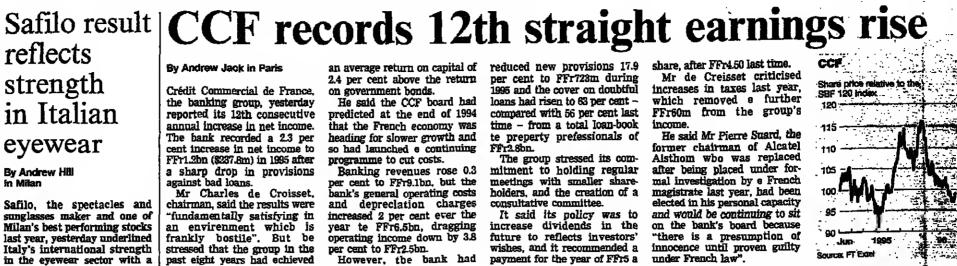
The group stressed its commitment to holding regular meetings with smaller shareholders, and the creation of a consultative committee.

It said its policy was to increase dividends in the future to reflects investors' wishes, and it recommended a

an average return on capital of reduced new provisions 17.9 share, after FFr4.50 last time. Mr de Creisset criticised increases in taxes last year. which removed e further FFr60m from the group's

income. He said Mr Pierre Suard, the former chairman of Alcatel Alsthom who was replaced after being placed under formal investigation by e French magistrate last year, had been elected in his personal capacity and would be continuing to sit on the bank's board because "there is a presumption of innocence until proven guilty

under French law".



Seat cuts loss and looks to break even next year

By David White in Madrid

Seat, the Spanish subsidiary of Volkswagen which recently received a controversial injection of state aid, said yesterday it was on course to break even next year after redocing losses by 62 per cent to Ptall.29bn (\$90.9m) in 1995. The Barcelona-based carmaker last mada e profit in 1991.

"Fer the second year running, we are on track with our recovery plan," said Mr Utz Claassen, the company's German finance chief and executive vice-president. He said Seat had come "very close" to break-even in its eperating

The improvement follows approval in October from the European Commission for a Pta46bn package of aid from the Spanish government and regional authorities in Catalo-nia to help the cempany restructure.

"The expectation for 1997 has not changed," Mr Claassen said. However, he warned that the company still had "a couple of years' very hard work ahead of it" to complete the turnround. The deficit cempares with one of Pta29.47bn in 1994 and a towering pared with 1994, when losses



Seat's popular Ibiza: carmaker on recovery course after state aid

Pta151.32bn loss the previous

Seat production increased 9.5 per cent last year to 343,444 units from 313,690, Mr Claassen said; parent company turnover, meanwhile, rose 13.7 per cent to Pta456.5bn from Pta401.4bn. Commenting on a sparsely-worded company statement announcing the loss, Mr Claassen said: "A finance man must never be optimistic or pessimistic, but only realistic. But if I were not a finance man I weuld now start to be can-

tiously optimistic." The improvement in results came in spite of a reduction in extraordinary earnings com-

were partly offset by gains from the sale to Volkswagen of Seat's factory at Pamplona in northern Spain as well as its financing arm, Fiseat.

Last year's aid package was approved by Brussels on e "one time, last time" basis, and was conditional on a 29 per cent reduction in capacity from the 1993 level of about 800,000 cars e year. Actual production bas remained well below that.

According to the company, most of the cutback measures required by the Commission bad already been taken or were under way. Seat said its full results would be made public in May, after approval by

Net income at Bic tumbles 22% to FFr763m for year

Bic, the French manufacturer of disposable razors, ball-point pens and cigarette lighters, yesterday announced a reduction in 1995 net income of 22 per cent to FFr763m (\$151m). Net inceme was dewn because of an exceptional gain of FFr339m in 1994, mainly as e

subsidiary. The group reportad exceptional expenses of FFr38m, cempared with FFr156m last time, against restructuring costs and its US

result of the sale of the Sofab

buy-back operation. Net sales fell 6 per cent to FFr5.99bn during the year. largely as a result of the decline in the value of the dollar, although the company stressed that the 1994 figures had included sales of FFr209m frem its Sefab subsidiary. which had been sold during

that year. It said that sales at constant exchange rates end in comparable terms were up 4 per cent, with "modest sales gains" and strong profit improvements in the Americas

in spite of economic problems in Central and South America. Operating profit fell 7 per cent, from FFr1.14bn to FFr1.05bn, before taking into account the 1994 operating income of FFr61m from Sofab. Net interest income more then deubled te FFr153m.

against FFr73m. The highly company, which last year launched a buy-back of its shares quoted on the New York stock exchange, provided little additional financial

It seid there would be e dividend of FFr10 a share. The group also announced yesterday that Mr Claude Bich, director and vice-president of the company, had died en March 17 aged 57, It said all its employees were deeply saddened, and paid tribute to accemplishments, particularly in the development of the technology of writing instruments and shavers.

The death comes enly twe years after that of Baron Marcel Bich, the feunder of the group, in May 1994.

Agreement reached over ownership of Azucarera

Générale Sucrière of France is poised to advance in Spain's sugar secter as the co-owner of General Azucarera, the second biggest domestic sugar producer, through a Pta16bn (\$128.9m) deal with Banco Central Hispano (BCH) and Acor. Spain's third-ranked sugar company.

The propesed agreement strengthen the group's posiweuld end a long-running bat-tle between the French group and Acer fer centrel of tion in the market fer sports sunglasses. The target com-pany has about half the US market for ski goggles and It could also lead to a comglasses. "We forecast in 1996 that 51 per cent of our turn-over will be in the US, thanks

prehensive reorganisation of the Spanish sugar secter through subsequent bids for Ebro, the main demestic pro-Mr Tabacchi said Safilo was ducer, whose main shareholder heading for an operating profit of L66bn in 1996, on

Office (KIO). BCH, which has 49 of Azucarera, is said to be disposing of a 39 per cent stake to allow Acor te take a 24.9 per cent holding and Générale Sucrière to lift its 20 per cent stake to the same level. The disposal is designed to prevent either buyer's stake going above 25 per cent, where a takeover bid would be triggered.

BCH will place another 10 per cent of its equity among core Azucarera shareholders, which include the UK's Tate & Lyle. It will remain the sugar company's banker, owning up to 10 per cent of its shares. Two years ago BCH agreed to sell virtually its entire stake

in Azucarera to Générale Suc-

rière and to Tate & Lyle. How-

is the Kuwait Investment ever, the disposal was blocked by Spain's agriculture minis-ter, Mr Luís Atinza Serna, who feared the domestic sugar queta could be downgraded if one of the country's leading producers were foreign-owned. A subsequent attempt by Acor, backed by the agriculture ministry, to buy into Azucarera was rejected by BCH.

The current deal appears to please all parties, including Azucarera. BCH, which is seeking to strengthen its balance sheet, gains useful liquidity from the sale; Spain's share of the European Unien's sugar quota is safeguarded by Acor's investment; and the French bidder establishes the significant equity base in Azucarera that it has long sought.



Luiz Atinza Serna: feared downgrading of sugar quota

Analysts believe the settlement over Azticarera's share likely to involve Générale Suchelder structure anticipates rière and Tate & Lyle - folthe clarification of ownership at Ebro. Where Grupo Torras. the KIO's investment arm in Spain, which is in receivership, owns 34 per cent of the equity. posal is completed.

Bids for Ebro, which are lowed by asset swap agreements with Azucarera or e merger of the two companies are expected once BCH's dis-

Survey points to low morale at Deutsche Telekom

By Michael Lindemann

debt to less than L120bn at the end of the year, against net equity of L150bn. Safilo bas Deutsche Telekom, Europe's largest telecommunications recommended a dividend of eperator, yesterday launched L370 for each ordinary sbare, an unprecedented publicity campaign aimed et persuading against L300 in 1994, and L400 milliens of Germans to buy per savings share, compared shares in the company, but the Safilo, like Luxottica, bas meve came amid signs that staff morale had fallen to new

bnilt a strong position in designer frames, manufacturdepths. The company, which is statelng fer well-known marques sucb as Gucci, Diesel, beld, is selling 500m sbares Burberrys and Polo Ralpb through e global issue in November.

The state will retain an 80 per cent stake.

An internal survey, conducted last November by the Sample polling egency, and which has been obtained by the Financial Times, showed that 59 per cent of the compa-ny's top 2,000 executives were prepared to leave the company for another jeb.

surveyed, 54 per cent said they would do the same, up from the 42 per cent who said they were prepared to leave during a similar survey in 1993. The poor morale within the

Among 1,014 empleyees

company, caused mainly by

the fact that 43,000 jobs are to

be shed by 2000, highlights the problems Mr Ron Sommer, chief executive, faces ahead of the stock exchange listing in November, and as he prepares the company for full-scale competition in the German telecoms market in 1998.

As part of its effort to attract potential shareholders, Mr Sommer said that Deutsche Telekom had set up a sharehelders' information forum, believed to be the first of its kind, which would keep inves-tors up-to-date on all aspects of the stock exchange listing. The listing, expected to raise about DM15bn (\$10.2bn), will be one of the world's largest.

our room for manoeuvre and the competitien will see us soaring to new heights," Mr Sommer said yesterday in

Bonn. He said there would be other features to make the shares more attractive, but that these could only be announced later in the year. There has been speculation that these might include tax breaks for shareholders.

Mr Joachim Kröske, finance director, said the price of the shares would only be known after the book-building process had been complated, shortly

"The receipts from the stock exchange listing will increase Book-building sets a price for Book-building sets a price for the shares on the basis of demand among potential shareholders. However, Mr Kroske

acknowledged that selling

shares te German investors would not be easy, given their previous lack of enthusiasm for buying equities. He said only 5 per cent Germans held shares, compared with about 20 per cent in

other leading industrialised The Dax index of Germany's top 30 shares had risen 40 per cent since 1990, Mr Kröske said.

SCHERING

Annual General Meeting

Schering Aktlengesellschaft

(Securities Code No. 717 200)

2. Resolution for the appropriation of the net profit.

of the Board of Executive Directors.

of the Supervisory Board.

5 Supplementary Election to the Supervisory Board.

23rd April, 1996. Pursuant to Section 125 of the German Companies Act we have sent Notices to Shareholders and the abridged version of our annuel report for 1995 intended for all holders of Schering shares

in sale custody, for them to pass

on to all holdere of Scherine shares. Shereholders who heve their Schering shares held in safe custody by a bank and have not documents from their bank by 19th April, 1996 are request epply for them to their bank.

Cimpor plans global offer as operating profits rise 28%

Cimpor, Portugal's biggest cement producer, yesterday announced plans for a global offer of 40-45 per cent of the state controlled group by mid-July, after reporting a 28 per cent increase in consolidated operating profit in 1995 to Es27.2bn (\$178m).

An offering of 45 per cent would be worth Es105.6bn at current prices.

Mr Antônio de Sousa Gomes, president, said be expected about 40 per cent of the offer to be made in Lisbon, 35 per cent in Londen, and 25 per cent in New Yerk, depending on

The secondary offering follews an initial public offer of 20 per cent in July 1994. A

global co-ordinator is to be chosen next week from the investment banks Morgan Stanley, Union Bank of Switzerland and

SBC Warburg. Shares in Cimpor closed dewn 0.1 per cent yesterday at Es2,795. Analysts said investors had discounted a 27 per cent fall in net consolidated profit to E618.4bn from Es25.2bn in 1994.

Net profits were hit by a slide in extraordinary items, which fell to Es1bn from Es23.7bn in 1994, when Cimpor sold a Portuguese cement plant and a substantial financial holding.

The group is to pay a 1995 dividend of Es115, an increase of 15 per cent if e capital increase te Es84bn from Earnings per share on net profit fell to Es219 from Es361

Sales rose 24 per cent in 1995 to Es118.7bn. Cement consump-tion in Portugal, the highest per capita in Europe, is expected to grow by between 1-1.5 per cent a year to 2000 and then stagnate or turn down slightly, the group said.

Cimpor is expected to raise Es3.5bn-Es4bn before this year's offer by selling its 12 per cent holding in Banco Fomento e Exterior, a state-controlled bank that is to be privetised shortly.

lt alse plans to spend Es30bn-Es50bn this year on the purchase of an overseas cement plant. Negotiatiens are under way with groups in Es70hn is taken into account. Merocco and Spain, where the

1995

group already owns Corporación Nacional, a cement company with sales equivalent to Es25.7bn in 1995.

EXESMITIMO !

The state is expected to retain a 35 per cent share in Cimpor over the medium term. but may then sell its holding to a group of Portuguese shareholders. Cimper's statutes limit the voting rights of shareholders ether than the state to 10 per cent, regardless of how

Announcement of

attend this year'e Annual take place on Tuesday, 30th April, 1996 at 10 a.m. at the ational Congress Centrum', Neue

1. Presentation of the approved unts, the eroup accounts end the annual report tor Schering AG and the group for the business year 1995 including the report of the

3. Resolution for the discharging

6. Election of the auditors for the

The complete agenda, including the resolution put forward, is due to appear in the 21st March, 1996 ieeue (No. 57) of the Bundesenzeiger (Federal Gezette). Pleese refer to this announcement for details of the depositing shares in order to attend the Meeting. Closing date for such deposits will be Tuesday.

> Berlin, 21st March, 1996 The Board of Executive

FINACIAL TIMES THURSDAY MARCH 21 1996

Steel Mill Magdeburg Germany 4 March 0910 hrs

SOME SEE A SMOKESTACK INDUSTRY. WE SEE SHIFTING ENVIRONMENTAL REGULATION, CAPITAL RESTRUCTURING AND FUTURE HEALTHCARE LIABILITY.

Managing your company in a hostile world takes a partner who can see beyond the obvious. AIG is uniquely able to protect you because we have a clear understanding of risk, no matter what form it takes.

Since threats to your business come from many different directions, we offer expertise not only in insurance, but in managing total marketplace risk. With offices in approximately 130 countries and jurisdictions throughout the world, AIG has an unmatched knowledge of local conditions and regulations garnered during 75 years of

international operation. In fact, AIG is the only worldwide insurance and financial organization that helps you manage all your business risk and preserve shareholder value through a broad range of customized services. Services like environmental engineering, global claims management and political assessment. And we've got the top financial ratings to back us up. So AIG not only sees what's out there, but has the strength to help you do something about it. **WORLD LEADERS IN INSURANCE AND FINANCIAL SERVICES**

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come at Bic s 22% to 3m for year

THE CATHAY INVESTMENT FUND, LIMITED

1995 FINAL RESULTS

BUSINESS REVIEW AND OUTLOOK

BUSINESS REVIEW AND OUTLOOK
by livesument from Unified, formed in June 1992 with initial capitalization of
each MCM43 million ended the year with total Not Assets of approximately HEAR22
file privary objective of the Company is direct investment in China. In 1995, the
commission of 0.6 million shares of China Yachai International Ltd. (China) leading
of medium stated desert grack engines), its success in 979 Pharmacousteal Co., Ltd tone
largest pharmacoustical corpuspies), its success in 979 Pharmacousteal Co., Ltd tone
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largest pharmacousteal corpuspies, its instructs is lacouring China(harmacousteal corpuspies), its instructs in finding Hara Yuna Phappary Co. Ltd tone of Beijing's largest properties), and as
19 was lattle Soun Co., Ltd (China's largest producer of fully automatic washing
the lattle Soun Co., Ltd (China's largest producer of fully automatic washing
the lattle Soun Co., Ltd (Linua's largest producer of the Company is the
Commissional Manager of the Company is the Manager management Corp., of
a Commedical, 13th. The Investment Advisor to the Company is the Stock Exchange
Commedical Selfine, PRC, Luning 1996 the Investment Manager, with help from the
Advisor, plans to continue the Company is direct investment activities in China, subject
labelity of appropense investment opportunities

FENANCIAL REGREEGRES	31/12/95	3V12/94
	HES	HKS
Net Asset Value	821,741,428	808.740, 112
Net Asset Value per share	10 (3	11.78
Net Asset Value per share on		
a folly dilused basis	N/A	11.13
REVENUE ACCOUNT	Year ended	Year ended
	31/12/95	31:12/94
	HES	HKS
Income		
Interest on deposits	10,744,800	15,071,385
Dividends - unlisted investments	12,995,182	6,050,725
- listed investments	1,779,924	10", 160
Expenses	(29,522,908)	(23.067,105)
Net Loss for the year	(4,003.002)	(1,647,629)
Revenue Reserve, beginning of year	15,071,4331	(5,433,804)
Revenue Reserve, end of year	19.074.4351	(5.971.433)
Loss per share	(0.056)	70 0241

of the current tries of the Cayman Islands, the Company is not required to pay any taxes ayream Islands on either income or capital gains. The Company has received an undertake the Governor in Council of the Cayman Islands, purvaint to the provisions of Section 6

DERECTORS INTERESTS

Juan M. Mever

EXPRCISE OF WARRANTS

PURCHASE, SALE OR REDEDITION OF LISTED SECURITIES OF THE COMPANY During the year, 70,000 stores were repurchased on The Stock Exchange of Hoog Kong Limited and GaogeBed for an aggregate each consideration of HKS589,569. The Company did not self or

A copy of the annual report and any forther information is available form the Assista Secretary, MontPerson Fund Services (Asia) Limited, 33rd Flam, Asia Preyic Finance Tour Calberth Plaza, 3 Garden Ross, Central Hong Kong NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY (GIVEN that the Annual General Meeting of the Sharebakers of the Cuttar investment Fund, Limited (the "Company") will be held at the office of MeetParton (Cayman Lumicol, Bettoh, American Centure, Passe 3, De Roy's Derve, George Young, Grand Cayman, Cayman Islands, Bettoh West Indies on M Plan 1996 at 10.50mm when the following ordinary and

DEVARY RESOLUTIONS
TO receive and consider the Branchi statements of the Company and the reports of the Directors and the Austrone for the year citied \$1 December (1995). To resolve that a final dividend of HK58,377,414 will be declared. To resolve that a final dividend of HK58,377,414 will be declared. To re-lect pain Meyer and Charles C. Gerber as Directors. To re-lect a Director, are recommended by the Board, to replace Austron. To appoint Auditors for the ensuing year and to authorise the Directors to fix the

reconnectation.

To resolve that the general mandate for repurctase by the Company of an own states will be extended for one year.

To transact any other business which may be properly transacted at an animal general

Harger) Such fee of any) not exceeding two Hoog Kong delitars for its equivalent at the relevant time in 115 dollars) as the Board may from time to tene require is paid to the

Value.

115 Prone forms may be deposited at MecsPlerson (Cayman) Limited, British Aroccion Centre.

Plane 5, Dr. Bos Strive, George Town, Grand Cayman, Garnan Islands, British West Indies may have that the time specified above for the holding of the meeting.

12) Provises need not be transhers of the Company.

(3) No Director of the Company has a contract of service with the Company.

COMPANIES AND FINANCE: THE AMERICAS

Lehman climbs to \$104m in quarter

The surge in US mergers and acquisitions activity was evident yesterday when Lehman Brothers, the investment bank, said it was working on deals with a total value of \$58bn at the end of February, a rise from \$37bn in the pipeline three months earlier and \$19hn

Lehman said the increase reflected both the higher amount of M&A work available and its own efforts to rise in the league tables. It is adding 100 hankers to its corporate finance department, of which 20 will be hired from outside

However, the uneven timing of fees on M&A work meant Lehman's investment banking revenues fell between the fourth quarter of 1995 and the first quarter this year. although at \$211m they were 54 per cent higher than a year

ago. Lehman was reporting its

By Bernard Simon in Toronto

Bell Canada, the country's

biggest telephone company.

expects to reap the rewards of

a corporate transformation by

posting a 40 per cent jump in net income this year.

The expected increase, the

first in three years, comes in

the face of intense competition

in long-distance services, and the entry - probably in 1997 or

and other competitors in the

Bell, wholly owned by BCE.

local market.

- of cable-TV operators



Richard Fuld: rise driven by higher revenues and lower expenses

Bell Canada sees reward from revamp

first-quarter results, which an increase from \$45m in the same period a year ago and from \$80m in the previous quarter to end November, excluding a \$97m restructuring

Earnings per share rose to 79 cents from 31 cents in the first quarter of 1995, and 49 cents in the fourth quarter.

Mr Richard Fuld, chairman and chief executive, said "stronger earnings and enhanced margins were driven by the fourth consecutive quarter of higher revenues and lower expenses, amid a period of generally improved market conditions".

although there is some concern that the markets have not been so favourable for investment banks this month.

Revenues for the quarter, net of interest, were \$821m, a rise of 16 per cent from the same quarter last year and of 9 per cent from the previous

A programme of reducing non-personnel expenses had cut these costs from \$277m in the first quarter of 1995 to \$246m this time.

Compensation expenses rose 16 per cent to \$416m, in spite of a reduction in staff numbers from 8,428 at the end of February 1995 to 7,703. Staff numbers peaked two years ago at 9,400. Compensation has held steady at 50.7 per cent of net revenues for the last 12 months.

Lehman said the pre-tax operating margin had risen from 9.9 per cent in the first quarter of 1995 to 19.2 per cent The Lehman figures, coming after the rise in profits at Goldman Sachs, augur well for Wall from \$24.69 a year earlier. this year. Book value per share was \$26.41 at February 29, up

Canada, emerges from a restructuring as AT&T Can-

ada. The US company, which has a 33 per cent stake in Uni-

tel, is expected to put its mus-

cle behind an aggressive mar-

keting campaign.
Bell is preparing for local

competition by seeking regula-

tory approval for new rate structures that would diminish

cross-subsidies between various users. The recent rate increase, as well as a similar

one scheduled for early 1997.

apply only to residential

The cable operators' growing

fibre-optic networks and high

capacity cable modems could give them a significant compet-

itive advantage in some ser-

vices, such as continuous

Internet access. Mr Kuhn fore

cast that revenues of cable

NEWS DIGEST

ConAgra advances despite higher costs

ConAgra, the Omaha-based agribusiness company, yestrday reported earnings for the third quarter ended February's of 55 cents a share, up from 49 cents a year ago, on virtually at turnover of \$5.77bn, compared with \$5.76bn a year ago. Jet income was \$128.4m, against \$112.5m. For the nine-mort period, net income rose 14 per cent to \$374m, or \$1.63 a pare, up from \$327.2m, or \$1.43, on sales up about 3 per cent

The company said it expected feed costs for its poulti and meat operations, mainly corn and soybean meal, to include by about \$70m in the second half of fiscal 1996 from a vir earlier. "We expect that the impact in the fourth quart will be a few cents per share more than it was in the third quarter," Mr Philip Fletcher, chairman, said. "In light o umusually onerous grain costs, I am particularly please with our company's performance this year."

ConAgra said weak demand and high grain costs resided in a substantial drop in operating profits for the US beef biness in the third quarter. Pork earnings were above plan, bubelow last year's exceptionally strong results. Processed meat operating profit decreased in the third quarter and the ine operating proint necreased in the time quarter and the he months because of high raw material costs, despite goo volume growth in branded packaged meats. Chicken princes saw higher operating profits in both periods. Turkey, wich was also hampered by high grain costs, saw an operating profit decline in the third quarter, but a substantial risin profits for the nine months.

ConAgra said its grocery/diversified products industr division saw a significant increase in operating profit inhe third quarter and nine months. A good gain in the third quarter in unit volume boosted Hunt-Wesson operating rofit growth, while consumer frozen foods saw a significant se in operating profit. The food inputs and ingredients divisi increased operating profit in the third quarter and nine months. The crop input, grain processing and grain merchandising businesses and business dispositions lasyear contributed to what the company called "hefty gains". said grocery/diversified products registered significant third quarter and nine-month sales growth, as did food input and ingredients. Acquisitions contributed to earnings for the grocery/diversified operations. Refrigerated foods saw sales decline in both periods mainly because of lower beef seing prices. The sale of a poultry plant was also a factor.

Magna buys Marley division

Magna, the Canadian-based international car parts provicer, has bought the component operations of Marley of the K for C\$100m (US\$73.5m), The deal includes six fully-owned Jarley interior component plants and one joint venture operation. together with annual sales of about C\$275m. The commy said the acquisition "will enhance our European and global position in the original equipment market". Magna curently has 24,000 employees in 95 plants in 10 countries and his more than C\$500m available for further acquisitions.

Banco Continental granted ban

Banco Continental, one of Ecuador's largest banks, ha been granted a \$160m loan from the country's central bank a order to survive a liquidity crists, a high ranking governmen official said. The move means the central bank will tale temporary control of the troubled financial institution The central bank will acquire the voting rights of all of thebank's shares and some of its subsidiary companies' shares, sich as Banco Continental de Curazao. The shares will be depoited in a trust fund. .The central bank will obtain 13 of the 15 seats in theboard

of directors, while the bank owners will keep the remaining two. The central bank will later restructure Banco Continental to make it smaller, but leaving enough patrimony for I to remain operating. Banco Continental, which was harduit by last year's liquidity crisis, will later be placed on sale.

Heinz set for Argentine buy

H. J. Heinz, the US food group, is to acquire a majority interest in Alimentos Pilar of Argentina, a producer of pet foodand animal feed. The company declined to specify the size I the interest to be acquired or the terms of the agreement because the deal has not yet closed. Alimentos, with annual sales of \$21m, is Argentina's hird

largest pet food producer. It will become part of the Henz Pet Products division, which has sales of more than \$1bn. he transaction represents the company's first investment

Correction

Yesterday's article on Corning stated that under the dissional reorganisation announced last week, the clinical laboratories business would form part of Corning Technologies. In act, the laboratories business remains part of Corning Life Sciences, a subsidiary unaffected by the reorganisation.

the Montreal-based telecoms conglomerate, has budgeted for net income of C\$771m (US\$567m) this year, up from

C\$567m in 1995. Operating cash flow is expected to climb almost 19 per cent. About 35 per cent of the improvement will come from an increase in local rates. which came into effect at the beginning of this year.

YPF close to

on US venture

YPF, Argentina's largest oll

and gas company, expects in

July to conclude negotiations

with US companies to form a joint venture to expand its gas

ing to Mr Cedric Bridger, vice

president of finance and corpo-

rate development, Renter

The joint venture was aimed

at reducing administrative

costs, increasing output and

facilitating commercialisation

of gas in the US, Mr Bridger

The company saw growth

prospects in its international

operations, particularly in Latin America, he said.

YPF also saw good opportu-

nities in Chile and Brazil. The

company has focused gas

exploration in the Neuquen and Noroeste basins, from which it intends to develop gas

pipeline export routes into gas-

poor Chile and Brazil.

reports from Rio de Janeiro.

sealing deal

But much of the rest will be attributable to cost-cutting and higher revenues from a range of innovative, value-added phone services, such as a "call waiting" signal and access to incoming callers phone

numbers Operating expenses are expected to drop slightly this year, despite a 6.8 per cent advance in revenues. Bell's workforce is due to shrink to 45,300 at the end of this year and 41,000 in 1997, from 51,500 at the end of 1994.

The Improved ontlook reflects a drive by a new management team over the past two years to shake off Bell's reputation as a slow-moving dinosaur. Bell "has changed colossally", one Toronto analyst said. He cautiooed, however, that "many things have to come together for Bell to meet the budget", including retention of long-distance market share and no significant

By Tony Jackson

Shares in Rockwell, the US

group, rose almost 5 per cent

yesterday on renewed sugges-

tions that it might sell lts

defence and aerospace

operations. Rockwell refused to

While the company has

become less dependent on

defence in recent years, 28 per

cent of its \$13bn sales last year

were to the US Defence Depart-

ment and the NASA space

agency.

Speculation over a possible

sale of the business has been

prompted by a wave of mergers

in the US defence industry, in

response to US government defence cuts.

A report in yesterday's Wall

Street Journal suggested the

business could be worth

BCE shares gained 50 cents in early trading on the Toronto stock exchange yesterday to

loss of business to wireless

The consortium of provincial phone companies, of which Bell is the dominant member, has lost about one-fifth of the long-distance market since deregulation in 1992, However, Mr John Kuhn, a Toronto telecoms consultant, said Bell had been more successful than

AT&T, the US group, in main-taining customer loyalty. Bell said yesterday it was gaining more long-distance customers than it was losing. However, most of these were small residential users, so that its market share in revenue terms was slipping, albeit more slowly than in 1994 and 1995. A new challenge will come

as an alternative to selling

It is understood to have con-

sldered hids for the defence

division of Westinghouse.

which was sold for \$3bn to

Northrop Grumman in Janu-

ary, and for E-Systems, bought last year hy Raytheon for

Rockwell is publicly commit-

recent example was the pur-

chase of the US industrial

companies and other "competilater this year when Unitel tive access providers" would soar from about C\$200m this Communications, the ploneer of long-distance competition in Talk of defence, aerospace

sale lifts Rockwell shares \$3.5bn. While partly automation company Reliance responsible for the rise in the Electronics.

share price, up \$2% to \$61%, the figure is thought to be too At the same time, it has been active in disposals on the com-Although analysts regard a said it would sell its Goss and Baker Perkins printing press disposal as likely, it is not a foregone conclusion. Rockwell husiness, expected to fetch has shown interest recently in more than \$500m. expanding its defence business

Rockwell's defence electronics division had sales last year of \$987m, and was highly profitable. It is hest known for making guidance systems for missiles. The aerospace division, which produces rocket engines and satellites, had sales of \$2.4bn. Possible buyers include the aircraft manufacturers McDonnell Douglas and

ted to acquisitions on the com-mercial side of its operations, which range from factory auto-However, the ontcome of any auction is unpredictable, since all the remaining large US mation to auto components. A defence companies are actively seeking to expand hy acquisition.

AGA - Report on 1995 Operations

22% to SKr 2,108m (1994: 1,726m). In addition a capital gain of SKr 601m arose from the sale of shares in Avesta Sheffield.

. Not income per share after full tax rose by 20% to SKr 4.31 (5.28), excluding the capital gr

. The 1994 result is expected to be at largely the

1995 1994 1995 in Summary, SKr million 13,271 12,544 1,881 1,693 Operating income Net financial items

Share of income in Gullsplings Kraft Income to other associate companies 1,726 Capital gain Iron sale of shares Minority interests Net income Excluding the 1995 capital gain-Net uscome per share after full tax, SKr Return on thareholders' county, "as Liquid assets and investments 3,351 1,983 12,537 Shares and participations, et Land, buildings, machinery Other current liabilities Other long rerm liabilities Minority interests Shareholders' equity Total assets

The AGA Group's 1995 sales rose by 6% to 5Kr 13.27fm and operating arcome by 11% to SKr 1.881m. The operating margin improved to 14.2% (13.5%).

Income after tinancial incom mercated 22% to SKr 2,100m sactuding AGA's SKr 243m share of corre-Advant menuning Acts Set 20019 and to the special or sp

Consolidated net income rose to SKr 2,110m. Excluding the capital gain, ner income per share after full tax increased 20% to SKr 6.31 [5.28]. Return on capital employed before tax increased to 17.6% (16.91, and return on equity after full tax to 17.4% (17.3).

Gas operations achieved considerable volume increas es at a largely unchanged price level. Sales and earnings increased subtantially, particularly at the beginning of the year. A weaker economic trend was noted in Brazil, the U.S. and some European countries rowards the end of the year. Combined with the impact of a substantial devaluation in Venezuela this meant that earnings in the fourth quarter fulled to reach the high 1994 level. Volume increases and completed rationalization pro-

grams led to improved margins for the majority of AGAs companies in Europe. The favorable earlings nend continued in the Northe countries and several connectings on the commonst. The operations started in Eastern Europe and the U.K. in recent years continued to develop well.

The low rate of the U.S. dollar affected AGA's results on the U.S. and Lann America. The trend in the U.S. was stable, while in Brazil operating income decreased from the very high 1994 level, and earnings in Mexico

AGA's investment activities increased considerably in 1995. Investments in new plant and equipment amounted to SKr 2,635m (1,739), which correspond to 20% (14) of sales. Air separation plants in Finland, Mexico and Chile were completed during the year, and an air separation plant was started in German at the beginning of 1946. Additional planes are being built in Sweden, Rassea, Norway and the Netherlands and con struction has stated in Austria, France, Beazil and Colombia. In addition, capacity for liquid air gases is being increased subscantially in Beazil and the U.S.

The Board of Directors proposes an increase of the dividend from SKr 2.25 to SKr 2.76 per share. The Annual General Meeting will be beld on May 9, 1996 and dividends will be distributed from VPC on May 22. The complete year-end report may be ordered from AGS AR, Information, 181 81 Lidings, and can be

ound on the intertee: http://www.aga.se. AGA to one of the world's largest per companies. The Group products and talk industrial and including sizes in 35 countries at Larges, the U.S. and Latin America. The associate company Galliphogs Earli is one of Swedon's largest producers of electric

AGA AB (publ), S-IBI BI Lidings, Swed

10,531 10,546

AssiDomän

Year end report Highlights of 1995

 Revenue: 21,836 million kronor (1994: 17,232) Profit after net financial items: 4,345 million kronor (2,072)

 Net profit: 3,418 million kronor (1,950) Earnings per share after full tax: 28.90 kronor (16.50)

 Cash flow per share: 43.50 kronor (24.50) Return on shareholders' equity: 26% (18)

Proposed dividend: SEK 5.00 (3.25) per share Number of shareholders December 31,1995: 386,374

 Further restructuring of the Group Divestments: Sawmilling companies: Algo Timber AB, Wedde & Co AB, Vilhelmina Sagen AB and EA Sandström Tra AB; Vallvik pulp mill; 51% of the shares in Swerock. Acquisitions: Skarblacka pulp and paper mill with sack factories in Germany and England; Pacsac, Skoghall,

Sweden, and Robert Fleming in England; PWA-Kurststoff, which ownsfactones in Germany and Belgium; Forvaltnings AB Hasselfors, Sweden; Cartiera dell'Ania and 73% of Natro Cellulose, Italy; and 39% of SEPAP a.s. in Czechia. Takeovers: Empee Eindhoven BV, Holland and half of S&M (units in Poperinge and Vilvoorde) in Belgrum.

The full year-end release may be obtained upon request from AssiDoman AB, Group Staff Information. It can also be found on our internet home page

AssiDomán AB. S-105 22 Stockholm, Sweden Telephone +46 (0)8 728 08 00. Fax: (0)8 728 98 16.

AssiDomân is one of Europe's leading forest products companies. reaccommin to the Or English States of States employees, and almost 400,000 shareholders.



Jardine Strategic

Notice to Warrantholders

Holders of warrants ("Warrantholders") entitled to subscribe for ordinary shares of USQ.05 each (the "Ordinary Shares") in Jardine Strategic Holdings Limited (the "Company") atta subscription price of US\$3.57 per Ordinary Share on or before 2nd May 1998 (the "Warrants") are hereby informed that with effect from 1st April 1996 the Company's v agents will be as follows:-

Coopers & Lybrand Level B, 580 George Street Sydney, New South Wales 2000

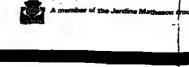
Independent Registrars Group Limite Bourne House, 34 Beckenham Road Kent BR3 4TU Barclays Bank PLC

Shell Tower Singapore 048623

Warrantholders who are in any doubt as to any aspect of this announcement should coisuit their stockbroker, bank manager, solicitor, accountant or other professional adviser. By Order of the Board C H Wilken, Company Secretary

Jardine Strategic Holdings Limited Jardine House, 33-35 Reid Street

14th March 1996





THE STARS PROGRAMME STARS 1 PLC £475.000,000 Class A Floating Rate Mortgage Backed Securities 2029

Notice is hereby given that the Principal outstanding on the subject issue for the interest period March 27, 1996 to June 27, 1996 will be \$203,837,500.00. The Principal amount outstanding for each note is £7,090.00.

Morch 21, 1996, London By: Citibank, N.A. (Issuer Services), Agent Bank CITIBANCO

Igra advance FINANCIAL TIMES THURSDAY MARCH 21 1996 te higher con

COMPANIES AND FINANCE: ASIA-PACIFIC

Sun Hung Kai optimistic after 5% first-half rise

By John Ridding in Hong Kong

THURSDAY MARCH:

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And the American

or since you Sun Hung Kai, one of Hong Kong's largest property groups, yesterday announced a modest increase in profits for the six months to the end of December, hut struck an optimistic note about prospects for the Hong Kong market

Announcing a 5 per cent rise in nat profits to HK\$5.15bn (US\$666m), Mr Walter Kwok, chairman, said he expected property prices to rise over the next two years after sharp falls

in 1994-95. The announcement that they are bullish for the after the group, in conjunction with Henderson Land, bid HK\$4.73bn for a 15,100 sq m plot of reclaimed land in Hung Hom Bay in Kowloon. The bid was seen as evidence

of recovery in the Hong Kong property market, which suffered price falls of between 20 per cent and 30 per cent after the peak of spring 1994. Industry analysts said the

results were satisfactory, if at the lower end of expectations. "What was more striking was

of results came only a few days next couple of years," said Mr Adrian Ngan, property analyst at SBC Warburg in Hong Kong. Mr Kwok said that, in view of a lower supply of residential flats in 1996 and 1997, prices

were expected to rise in the

pext two years. "Population growth will cootinue with an influx of immigrapts from China and retur-

nees from overseas.
"In the long run, due to strong housing demand and limited supply, the prospects of in Hong Kong are promising,"

industry analysts reflected such forecasts in their predictions for profits over the next few years. While full-year profits this time are expected to grow only modestly, to about HK\$10.8bn, next year is expected to yield a net result of more than HK\$13bn.

During the first half of the current fiscal year, turnover rose from HK\$11.01bo to HK\$12.54bn.

Operating profits rose from HK\$5.82bn to HK\$5.81bn. Earnings per share were HKSL22, dent and selective policy compared with HK\$2.11, while dividends edged up from HK\$0.58 to HK\$0.60.

According to a statement from the group, which is diversifying into infrastructure and communications, non-property activities are promising. The digital mobile telephone opera-tion, Smartone, saw subscribers break the 170,000 level and made a contribution to earnings. Road and airport freight projects were also oo track,

The company outlined a pru-

Sun Hung Kai said.

regarding its investments in China. "Total investments in China will not exceed 10 per cent of the group's assets. The currently committed projects, amounting to 3 per cent of assets, are mainly focused on major cities such as Beijing, Shangbai, and Guangzhou,"

the group said. Sun Hung Kai said it owned a land bank in Hong Kong of 43.4m sq ft in terms of attributable gross floor area. It also owns agricultural land in the

tends to throw up a number

closer to book value than the

higher value which the stock-

market places on the assets. In

Since then, several other would be acquirers have fol-

lowed this lead, including Aca-

cia Resources - in its A\$87m offer for Solomon Pacific

Resources - and Ross Mining

But there are still some big

reservations about the new

approach. Only yesterday, Sol-

omon, which is contesting the

offer from the larger Acacia group, won an injunction pre-

venting the bidder from send-

ing out its offer documents,

largely because of the planned

goodwill treatment.
"The court found that the

way in which Solomon's assets

bave been treated in the pro

forma consolidated halance

sheets is inconsistent with the

accounting standards

and ... the Corporations Law

cannot account for the incon-

sistency," said Solomon in a

statement. A further hearing

Technical though the issue

sounds, it may make a critical

difference to the ability of

some Australian gold produc-ers to participate in the cur-

That consideration notwith-

standing, few analysts believe

the bid flurry is about to end.
"This has been brewing for a

long time," says one, "although

exactly when deals crystallise

rent takeover wave,

will take place on Monday,

short, the goodwill problem

was minimised.

in its Auralia bid.

puts Cepa ahead

NEWS DIGEST

Consolidated Electric Power Asia (Cepa), the independent power project company spun off from Hopewell Holdings of Hong Kong in November 1983, yesterday announced a 25.7 per ent improvement in net profits, from HK\$235.16m in 1994 to HK\$295.6m (US\$38.2m) in the six mooths to last December.

Interest income

The dividend was held at 6 cents. There have been setbacks with some power plant projects: a Cepa bid for a plant in the Philippines was rejected - although t may rebid - and technical problems (caused by vibration in the statioo's GEC-Alsthom equipment; delayed completion of

Shajiao C in China. Some HK\$260m of Cepa's profits were attributable to interest income, with plants in the Philippines geoerating some HK\$22m and those in China more than HK\$10.

Mr Holden Lee, director of Cepa, said: "Shajiao C is still coming on line, but we are expecting that if each of the three units is operating fully it will be worth around US\$10m in revenue per unit per mooth." The last unit to come on line is expected to be ready in April.

Revenues from Pagbilao, of which Cepa holds 87 per cent. in the Philippines will generate revenues of US\$230m a year. Louise Lucas, Hong Kong

Australis gets short-term funds

Australis, the Australian pay-TV operator, said yesterday it had received a further US\$5m loan from Tele-Communications Inc, the large US cable TV company which holds a stake in the Australian group, and Leovest Communications, its associate. Australis added that it was continuing to negotiate long-term funding with TCI/Lenvest.

Australia' shares fell sharply this week after the company announced a A\$97.5m (US\$75.5m) loss for 1995, and revealed that it was trying to negotiate a financing package with TCI. Yesterday morning, its shares reached 53 cents at one stage, compared with 78 cents at the end of last week. News of the temporary funding belped them to close at 60 cents, still 6 cents down on the day.

Despite the funds, Standard & Poor's, the US rating ageocy. said it had revised the credit watch implications on Australis B-minus long-term credit rating and its triple-C subordinated note rating, from positive to negative,

At the start of 1995, Australis, which bolds a satellite broadcasting licence but also uses the MDS delivery system. became the first pay-TV company to operate in Australia, But last year, two cable consortia also started networks. Plans by Australis to merge with one of these - a partnership between Mr Rupert Murdoch's News Corporation and Telstra, the telecommunications group - were blocked by the competition Nikki Tait, Sydney

Profits up at Pakistan bank

National Bank of Pakistan, Pakistan's third largest public sector bank, will today announce a significant rise in in profits and deposits for 1995.

Pre-tax profits rose from Rs2.8bn in 1994 to Rs3.08bn (\$57.6m) last year, while deposits rose from Rs170.4bn to Rs208.2bn. Farhan Bokhari, Karachi

Cables deal for S Korea team

A South Korean consortium of Kolon international, a leading general trading company, and Daesung Electric Wire has won a \$30m contract to supply electric cables and wires to the Philippines, Kolon said yesterday. Shipments would begin in June and be completed in December 1998, Kolon said.

LG unit to invest \$200m in CIS

LG Electronics, a unit of South Korea's LG Group, will invest \$200m by 2003 in building electronic appliance factories in four nations of the Commonwealth of independent States, the company said yesterday.

Telstra doubles call capacity

Telecom Australia (Telstra), Australia's leading telecommunications provider, has doubled its trans-Tasman call capacity before a formal launch of services in New Zealand next week, the New Zealand Press Association reported yesterday.

Telstra New Zealand, a locally registered, wholly owned subsidiary of Telstra, late last year raised its capacity oo the Tasman Two fibre optic cable from two megabits a second Reuter, Wellington

the residential property market Australian goldmining strikes rich vein of deals

Institutional concerns and North American interest are two roots of the recent activity, says Nikki Tait

A porate activity need look no further than oyone in search of cor-Australia's goldmining sector. Over the past year, deals have flowed with abundance. Some schemes have been large and complex; such as the plan hy Mr Robert Champion de Crespigny to create a A\$3hn (US\$2.32bn) mining house by merging the Normandy Mining group and three of its related hut separately listed compa-nies - PosGold, Gold Mines of Kalgoorlie, and North Flinders

Others have been well below the A\$100m mark, and relatively straightforward - Ross Mining's offer for Auralia Resources; for example, or Resolute Samantha's bid for Associated Gold Fields.

But the big question is why such a concentrated outbreak of deal-making should be occuring, and why now. Analysts have a variety of

explanations. The first centres on the degree of North American interest in the sector. For example, Idaho-based Coeur d'Alene Mines is one of the rival hidders for Western Australia's Gasgoyne Gold Mines. Homestake Mining last year moved to buy out the remaining shares in Homestake Gold of Australia which it did not already own; Pegasus Gold did likewise with Zapopan. Battle Mountain Gold confirmed that it was holding talks with Mount Edon Gold Mines, although these eventually proved unfinitful. This interest, in turn, is usually attri-

Westpac, one of the big four Australian banks, yesterday

announced plans to huy back and can-

cel 95m shares, or about 5 per cent of

its issued equity, through stock mar-

It is the first of the hig Australian

banks to announce such a scheme

under "regular" circumstances.

although Australia and New Zealand

Banking Group (ANZ) made a cash

Times on January 26, 1996.



issued when some preference shares

share repurchase programme under

active consideration but, if this goes

ahead, it would probably be timed to

coincide with the federal govern-ment's sell-down of its remaining 50.4

The issue of how the Australian

banks should manage their surplus

capital bas heen an increasingly pressing one, with most leading banks

per cent interest in the bank.

Bank Handlowy w Warszawie S.A.

Capital Markets Centre

acting on behalf of the State Treasury represented by the Minister of Finance

hereby informs that the Minister of Finance has exercised his right not to commence the negotiations without providing any justification pursuant to the invitation to Negotiations published in Receptospotite and in Financial

Please also be advised that persons who submitted their applications to perticipate in the negotiations pursuant to the

above mentioned announcements may collect such applications at the place of their submission. If the applications are not collected they will remain valid for the negotiations undertaken pursuant to the below presented invitation.

Invitation to negotiations

of Bank Ślaski S.A. w Katowicach

Bank Handlowy w Warszawie S.A.

Capital Markets Centre

acting on behalf of the State Treasury represented by the Minister of Finance

hereby invites to the negotiations

aimed at the sale of 671,184 shares of

Bank Slaski S.A. owned by the State Treasury

The interested parties should submit applications stating their intention to participate in the

- The name, identity card or passport number, place of permanent residence or - if an

investor is a legal entity - the name and seat of the entity and an excerpt from a register

appropriate for the iovestor's seat or other legal document containing basic data

concerning the investor which show his legal status, manner of representation as well as

names of persons authorized to represent him. If an investor is a foreign entity documents

should be certified by a notary or a Polish diplomatic agency or consular office and

The livestor's investment policy towards a block of shares being the subject matter of the

The intention to participate in the negotiations may pertain only to number of shares being

Applications to participate in the negotiations should

be submitted in sealed envelopes by April 1, 1996, 3:00 p.m., in

Warszawa, ul. Kasprzaka 18/20, room 204.

The organizers reserve the right not to commence or to renounce the

negotiations without providing any justification.

negotiations in writing. Such applications should include the following data:

translated into Polish by a sworn translator.

negotiations.

subject to sale.

· with respect to acquisition of shares

Commonwealth Bank also has a

were converted last year.

has said that it sees the posslble acquisition of Gasgoyne which has an interest in a Sulewasi gold project as well as larger assets in Western Australia - as "as first step in creating a major gold company in the Australasian region". Second, there is the growing

realisation that institutional funds are interested in size. From the goldminer's standpoint, capital-raising becomes significantly easier once a cer-tain critical mass is reached. "The investment market is hiased to towards the top end," says Mr David Walker, analyst

on their assets, meaning that a bidder has the problem of what to do with the resultant good-

Amortising goodwill over the life of the mines in question the conventional Australian accounting treatment - can be a big drain on earnings and even affect the merged compa-ny's ability to pay dividends.

tor may not constrain overseas bidders, it has traditionally been viewed as the biggest obstacle to deals between Australian

year, however, Renison Gold Fields, via the newly-created offshoot Goldfields, mounted a bid for Pancontinental Mining. and its advisers came up with a more innovative approach. Relying on the wording of Corporations Law rules for allshare offers, rather than the usual accounting conventions, they managed to take the acquired assets on to Goldfields books at fair

goldmining companies. Last

Fair value, in turn, was assessed using discounted cashflow analysis of existing

NatWest Securities and Ord Minnett

While the banking sector remains a special case, share buy-backs bave also become more common among Australian companies generally. Pacific Dunlop, the Melbourne-based cooglomerate, announced last year that it would buy in up to 10 per cent

Westpac shares closed 2 cents lower

NOTICE OF CHANGE OF COMPANY NAME

To the holders of bonds, notes, warrants and other securities for which members of The Mitsubishi Bank Group act as Trustee. Fiscal Agent, Principal Paying Agent, Warrant Agent, Paying Agent, Conversion Agent, Process Agent, Payment Hundling Bank, Custodian's Agent in Jopan or Guarantor or in any other or similar expanity:

NOTICE IS HEREBY GIVEN that, as a consequence of the scheduled morger among The Bank of Tokyo Group and The Missabishi Bank Group, the names, addresses, telephone numbers or telex numbers of certain offices and entities comprising The Misubida Bank Group will be changed with effect from 1st April, 1996, subject to approval of relevant authorities, as follows:

The Bank of Tokyo-Mitsubishi, Ltd., Head Office (formerly The Mitsubishi Bank, Limited, Head Office) 7-1, Marunouchi Z-chome, Chiynda-ku, Tokyo 100, Japan Telephone: 81-3-3240-1111/Telex: J 22358 BISHIBK The Bank of Tokyo-Misubishi, Ltd., London Branch (formerly The Misubishi Bank, Limited, London Branch) 12-15 Finsbury Circus, London EC2M 78T, United Kingdom Telephone: 44-171-588-HIL/Telex: 88-48H TOHBK A-C G The Bank of Tokyo-Mitsubishi, Ltd., Singapore Branch

(formerly The Missubishi Bank, Limited, Singapore Branch)
9 Ruffles Place, #01-01 Republic Plaza, Singapore 048619. the Republic of Singapore Telephone: 65-538-3346/Teles: RS21913, 24363 TOHRANK The Rank of Tokyo-Mitsubishi, Ltd., tiong Kong Branch (komerly The Mitsubishi Bank, Limited, Hong Kong Branch) 1/F., Far East Finance Centre, 16 Harcourt Road, Hong Kong Telephone: 852-2862-7889/Telex: 73252 TOUBK HX

Bank of Tokyo-Mitsubishi Trust Company (formerly Mitsubishi Bank Trust Company of New York) 100 Broadway, New York, N.Y. 10005, U.S.A. Telephone I-212-760-3-HS/Teles: 222967 TOHBANK

Tokyo-Mitsubishi International ple (formerly Missabishi Finance International pic)
6 Broadgate, London EC2M 2AA, United Kingdom
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Bank of Tokyo-Mitsubishi (Belgium) S.A. (formerly Mitsubishi Bank (Europe) S.A.) Avenue des Arts 58, B-1000 Brussels, Kingdom of Belgium Telophone: 32-2-551-441/Telex; 20120 BTMBEL 8 Bank of Tokyo-Mitsubishi (Switzerland) Ltd. (formerly Mitsubishi Bank (Switzerland) Ltd.) Balmholplatz L 9023 Zurich, Switzerland Telephone: 41-1-219-5III/Telex: SL2167 TOBK CH Bank of Tokyo-Mitsubishi (Deutschland) AG (formerly Mitsubishi Bank (Deutschland) Gabli) Mainzer Landerusse R., (0325 Frankfurt am Main, F.R. Germany Telephone: 49-49-7176-0/Telex: 413270 TOBR D

Tokyo-Mitsubishi International (Singapore) Ltd. (formerly MBL Merchant Bank (Singapore) Limited) 9 Raffles Place. #01-01 Republic Plaza, Singapore 048619. the Republic of Singapore Telephone: 65-231-1660/Telex: RS 20494 Tokyo-Missabishi International (HK) Ltd. (formerly Mitsubishi Finance (Hong Kong) Limited)
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THE MITSUBISHI BANK, LIMITED 21st March, 1996

This announcement appears as a matter of record only.

February 1996

The Kingdom of Sweden

has awarded the concession for the

Arlandabanan Rail Project

A-Train

The undersigned acted as financial advisor to the Ministry of Transport and Communications and to A-banan Project AB. assisting with the financial feasibility analysis, project structuring, marketing to investors, managament of the bidding process and financing of the SEK 4,500,000,000 project.

Salomon Brothers

No flash in the pan: goldmining in Kalgoorlie, Western Australia, an area set for more deal activity

North America itself - and the fact that Australian mining companies can often offer ways into other prospective countries in the region.

Coeur d'Alene, for example,

with ABN Amro Hoare Govett. Third, and most controver-

sial, there is the more technical issue of goodwill treatment in takeovers of goldmining companies. In general, the book value of such companies lies a long way below the value which the stock market places

Westpac to buy back 95m shares with surplus capital

huy back offer for ordinary shares posting capital ratios well in excess of important aspect of the hank's capital shares have been acquired. County minimum requirements. National Australia Bank, the largest of the Australian banks, leveraged up its balance sheet in slightly different fashion last year, hy acquiring Michigan National, the US bank, for

cash. However, other banks have appeared wary of overseas acquisi-tions, and domestic opportunities are increasingly limited. Yesterday, Mr Robert Joss, West-

management programme.

Asset and liability management had long been a core discipline for the

bank, and the programme followed a "forward-looking view of credit risk management". "This buy-hack represents an important step in managing our capi-

tal structure to enhance shareholder returns," he said. The buy-back will take place over

pac's American managing director, an initial one-month period, extend-said the buy-back represented so able for six months or until the 95m at A85.06.

will handle the buying on Westpac's

of its equity.

and the second

to see for Argentine buy

1. 442 h 2.017



cads-

H&C to end last colonial link buy behind

By Peggy Hollinger

Harrisons & Crosfield, the conglomerate which began life as a nineteenth century tea trader, is considering severing links with its colonial past by floating the palm oil plantations husiness in Papua New

It is estimated that Harrisons, which has been withdrawing from planations since the 1994 sale of its Indonesian interests for \$273m could raise some £30m (\$46m) from a flota-tion of its 54 per cent stake. This would value the planta-tion at about A\$100m. Although no decision has yet heen made. Australian analysts expect an announcement in the next two months.

Record palm oil prices last year helped Harrisons to report a 5 per cent rise in operating profits to £129.9m for the year to December 31, on sales 3 per

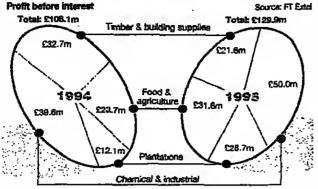
cent lower at £2.05hn. Pre-tax profits fell from £236.7m -which included a £143.4m gain on disposals - to £119.6m. Mr Turcan said yesterday

that in spite of a good performance from plantations, and advances in its chemicals, food and agriculture husinesses. Harrisons faced a difficult 1996. Palm oil prices had fallen back from the record levels of 1995. and the group's timber and building supplies operations were experiencing a slow start

Harrisons needed "a recovery in demand, particularly in the UK huilding sector, if we are to meet the stretching targets we have set ourselves", he said. The shares slipped 4p to

Harrisons has spent the past year restructuring its timber and huilding supplies operations, at a cost of £5.4m, to offset the severe downturn

Harrisons & Crosfield



in the construction industry. However, margins at less than 4 per cent were still far below the industry average of 7 per cent. Mr Turcan said.

Timber and building supplies showed a 34 per cent drop in operating profits to £21.6m.

Food and agriculture profits rose from £23.7m to £31.6m. helped by flying pig prices. Chemicals increased by 26 per cent to £50m at the operating level, and the plantations husiness more than doubled from

By Nicholas Dentor

The membership of the Dentsche Bank Vorstand - seen as the most prestigions

It is understood that Mr Craven will

ment banking board, and retain the largely titular position of chairman of Morgan Grenfell Gronp. Mr Craven, 55, is expected to focus on client relationships.

Mr Dobson, 43, became chief executive of Deutsche Morgan Grenfell when the investment banking businesses of Deut-sche Bank and Morgan Grenfell were fused last June. His ascension to the Vorstand quashes the idea that he was only an interim head of the merged investment

Mr Dobson will attend the board's regu-

Mr Hilmar Kopper, "speaker" of the Vor-stand, and other senior Dentsche Bank executives.

Deutsche Morgan Grenfell said reports of the change were "pure speculation". However, it is understood that a proposal on the Vorstand reshuffle is scheduled to go before the Dentsche supervisory board at its meeting next Wednesday.

The hank is expected to reveal its annual results a day later. Strong growth is forecast in debt trading and other activities in its global markets husiness.

UK bankers in Deutsche reshuffle remain ou Deutsche's five-man invest-

Mr John Craven, the Morgan Grenfell executive who secured the UK merchant bank's sale to Deutsche Bank in 1989, is set next week to hand over his seat on the powerful board of managing directors of the parent German hank.

position in German finance - will pass to his successor as chief executive of Morgan Grenfel), Mr Michael Dobson.

Flextech in satellite talks By Raymond Snoddy

Flextech, the cable and satellite programming group which has an interest in or manages 13 channels, is in negotiations to buy control of UK Gold and UK Living, two satellite channels.

Flextech, controlled by Tele-Communications Inc of Denver, holds minority stakes and is in talks with Cox Communications, the US media group, to huy its 35 per cent holdings in

Flextech also announced it had reached conditional agreement to buy the outstanding 61 per cent of International Family Entertainment UK and that it had reached agreement with Home Shopping Network of the US to acquire a controlling interest in its "infomercial"

The IFE UK deal is worth £30.5m (\$47m) satisfied by £3m cash and nearly 5.8m new, nonvoting Flextech convertible shares. IFE UK's main husi-ness is the loss-making Family being used, will be launched later this year.

Channel, and its assets include the former TVS studios in Maidstone, which will be used by Flextech's channels.

Flextech Homeshopping, a new Flextech subsidiary, will acquire worldwide rights from Home Shopping for the husiness, in which programming is based on long commercials. A new Flextech Homeshop

ping service for the UK, available during hours when satellite channels are not otherwise



Roger Luard, chief executive, home shopping launch

Beazer loses

keep margins

Construction Correspondent

Beazer lost its position as

Britain's second-largest house-hullder in the final six months

of last year after it reduced sales rather than allow profit

The group, which yesterday

reported a 24 per cent decline in pre-tax profits to £18.5m in

the six months to the end of December, saw its share of private new house sales dip from

4 per cent to 3.5 per cent. The

number of sales fell 22 per cent to 2,570. Mr Dennis Webh, chief exec-

utive, said Beazer had pre-

ferred to hold on to develop-

ment sites so their value could

be unlocked when the housing

market improved. Demand for

homes already had risen sharply in the first three

He warned however that the

recent revival in sales - Beazer's net reservations were

now running 50 per cent higher than in the second half

of 1995 – could be stemmed hy an early general election. The group's policy of restricting sales was in

marked contrast to rival

househoilders, several of which reported falls in operat-

ing margins last year. Companies seeking to attract hayers

were forced to offer attractive sales incentives including dis-

counts and part exchange

deals which ate into margins.

months of this year.

sales to

By Andrew Taylor,

margins to fall.

Restructuring and US buy helps Weir to 50% advance

Shares in Weir Group yesterday rose 23p to 258p after the pumps and engineering business announced a 50 per cent increase in profits for the year to December 29. The rise reflects the benefits

of last year's reorganisation of its pumps operation and maiden full-year contributions

Although the improvement was flattered by a £7.5m exceptional reorganisation charge in 1994, the company still reported a healthy increase in operating profits.

Sir Ron Garrick, chief execu-

from EnviroTech, the US spe- contemplate another sizeable clalist pumps company acquisition, prohably in the acquired for \$210m 18 months pumps or valves sector. pumps or valves sector. He hinted that the group

could comfortably absorb an acquisition of about £100m in the UK or US, which would push gearing from 5 per cent at the year end to about 50 per cent. The search has been stepped up following a sharp rise in orders, he said.

tive, sald Weir was now able to Bank Handlowy w Warszawie S.A.

Capital Markets Centre acting on beholf of the State Treasury represented by the Minister of Finance

hereby informs that the Minister of Finance has exercised his right not to commence the negotiations without providing any justification pursuant to the invitation to Negotiations published in Rzeczpespolita and in Financial Times on January 26, 1996.

Please also be advised that persons who submitted their applications to participate in the negotiations pursuant to the above mentioned announcements may collect such applications at the place of their submission. If the applications are not collected they will remain valid for the negotiations undertaken pursuant to the below presented invitation.

Invitation to negotiations

with respect to acquisition of shares of Wielkopolski Bank Kredytowy S.A.

Bank Handlowy w Warszawie S.A. Capital Markets Centre acting on behalf

of the State Treasury represented by the Minister of Finance hereby invites to the negotiations aimed at the sale of 13,763,200 shares of

Wielkopolski Bank Kredytowy SA owned by the State Treasury The interested parties should submit applications stating their intention to participate in the

negotiations in writing. Such applications should include the following data: The name, identity eard or passport number, place of permanent residence or - if an investor is a legal entity - the name and seat of the entity and an excerpt from a register

appropriate for the investor's scat or other legal document containing basic data concerning the investor which show his legal status, manner of representation as well as names of persons authorized to represent him. If an investor is a foreign entity documents should be certified by a notary or a Polish diplomatic agency or consular office and translated into Polish by a sworn translator.

The investor's investment policy towards a block of shares being the subject matter of the negotiations.

The intention to participate in the negotiations may pertain only to blocks of shares representing 5% of the company's share capital or its multiplicity.

> Applications to participate in the negotiations should be submitted in senied envelopes by April 1, 1996, 3:00 p.m., in Warszawa, ul. Kasprzaka 18/20, room 204.

The overanters reserve the right not to commence or to renounce the negotiations without providing any justification as well as the right to reduce the number of shares perioded in the application and the right to sell shares being subject. to negotiations to individual investors at different prices.

General Cable Wassall 32% rise

Wassall, the UK-based conglomerate, yesterday dem-onstrated the success of its General Cable acquisition 18 months ago, hy unveiling a 32 per ceut increase in annual profits to £55.1m (\$84m) before tax and exceptional items.

Mr Chris Miller, chief execu-

tive, said there had been an "outstanding performance" from US-based Geoeral Cable which had met targets set at the time of the acquisitions two years early. "It is not just that we have brought forward everything by two years. There is a lot more there than we thought at the time."

In addition to a cost reduction programme, Wassall has heeu abla to generate much hetter growth than expected from General Cable, where volumes rose 6 per cent last year in spite of the weak market for huilding wire.

Mr Miller said the group now had the financial and managerial resources to take on another hig acquisition, but that given the prospects for the existing businesses it would be

very selective.
"With analysts talking about earnings growth of 20 per cent

this year, any deal would have to do at least that well. Not only can we afford to be care-

ful, we have to be." Excluding exceptional items and the effect of copper price movements, earnings per share rose 30 per cent to 17.4p last year, the strongest growth since the current management team was installed in 1988. On the same basis, pre-tax profits

rose 42 per cent to £50.7m. General Cable saw operating profits jump to £31.6m on sales up 18 per cent at £671.7m. Margins reached 4.7 per ceut, which Mr Miller said was close to the 6 per cent target set at the time of the acquisition. allowing for the rise in the copper price.

General Cable has seen very good growth in telecommuni-cations cable, where its market share has doubled to about 30

per cent since the acquisition. Excluding General Cable. operating profits were slightly down due to the impact of the weak US do-it-yourself market on DAP - where profits fell to £10.4m (£13.5m) - and the margin squeeze in hottle tops caused by the sharp rise in raw materials prices. But margins in both husinesses are expec-ted to improve this year.

Britannic Assurance seeks to modernise

By Alison Smith,

Britannic Assurance, the life and pensions group, is under-taking a programme of change to modernise its business and become more cost-effective.

Mr Brian Shaw, general man-ager and actuary, said the com-pany was considering how to make the sales force more productive and whether to move into new product areas such as unit trusts and personal equity

Britannic has already said that it wants to withdraw from motor insurance, and plans to move into health insurance later this year. Mr Shaw said the 2.150-

strong sales force would probahly be reduced over the coming months, and that there was likely to he a substantial reduction in the 210 hranches the company currently ran. At the same time, it is hringing in the use of hand-held

computers by its sales agents and looking at making more use of the telephone in its still traditional husiness where sales agents visit customers in year.

their homes to offer advice and collect payments.

His comments came as Britannic announced an 80 per cent rise in pre-tax profits for 1995 to £63.8m (\$98m), against £35.5m. In accordance with the EU insurance accounts directive, this figure includes real-ised and unrealised investment gains and losses, and so is more volatile than operating

Operating profits rose 7 per cent to £50.6m (£47.3m) as a small dip in profit from industrial branch husiness - relatively limited products for which small premiums are col-lected every few weeks from customers' homes - and a fall in general insurance profits to £1.6m (£2.3m), were more than offset by increases from the other elements of the life

assurance business. Britannic would not say how its talks were proceeding with the Department of Trade and Industry about its surplus or "orphan" estate within the long-term life fund, hut it seems likely that this will be resolved before the end of the

LEX COMMENT

Beazer

Beazer's decision to sacrifice volume for the sake of preserving margins may well be Share price relative to the FT-SE-A Building and Construction Index a case of making a virtue out of necessity. But it is a virtue nonetheless, given the dire state of the housing market. Still, though the strength of its halance sheet and its landbank put Beazer in a stronger position than some of its rivals, the task of increasing margins from here is likely to be tricky.

Although Beazer's operating margin edged up to 11.2 per cent, the fact remains that the average cost of private residential land increased Source: FT Exte while the average selling price fell. The recent spate of acquisi tions and asset swaps in the housebuilding sector may have reduced the number of competitors, but it has so far done little

to reduce intense competition. The problem is that the most important raw material for househuilders – land – is difficult to huy. Despite the weakness of the housing market, land prices remain high, partly because too many housebuilders are still chasing volume in an

effort to shore up profits.

There is still the prospect that higher house prices will help bale companies ont. Reservations have been more robust in the first quarter, and hopes are pinned on the impact of tax cuts. This should at least prevent a repetition of the rapid slide in the market which occurred after Easter last year. Whether it will be sufficient to provide a significant boost in the face of negative equity and continuing joh insecurity is less certain. The ready supply of old houses at low prices means that sales incentives and discounts are likely to remain

the norm in the new housing market.

TI's US fraud case may go to appeal

Lawyers acting for the US government have filed notice of appeal against the decision of a New York court to dismiss a \$60m fraud action involving TI Group, the UK engineering and aerospace company. The solicitor general in Washington has backed the appeal, in which the US justice department has joined forces with a former TI employee who claims the company defrauded the US air force. They are trying to overturn a ruling hy Judge Louis L. Stanton that there was no jurisdiction to try the case in New York.

CRH makes \$87m US buy

CRH, the Irish building materials group, is continuing to expand its US quarries husiness via the \$87m cash purchase of The Jack B. Parson Companies, with aggregate interests in Utah, Idaho and Nevada. The consideration includes the essumption of about \$25m of deht. Parson, which has more than 90m tons of reserves, last year generated trading profits of \$15m on sales of \$109m.

Antireto Taylor

Devro to rationalise Teepak

Devro International, the sausage casing maker, warned sterday it may spend £10m rationalising Teepal International, the US casing manufacturer it recently acquired

Blenheim restores credibility

Blenheim Group, the exhibitions organiser, further restored its credibility – lost through a series of profits warnings in recent years - hy reporting a 17 per cent rise in 1995 profits. The result was huoyed by contributions from several of the group's largest shows that are held only on alternate years. Geoff Dyer

RESULTS

	Тапо	er (En)	prof	t (Edgi)	EP.	S (pt)	bayment (b)	payment	dividend	Acot.	year
Beautord Yr to Dec 31	41.1	(33.6)	2	(1.53♥)	3.87†	(5.3)	0.4	July 1	0.25	0.4	0.25
Beazer Homes 8 mths to Dec 31	158.2	(204.5)	18.5	(24.5)	4.6	(5.2 1	2	Apr 29	1.95	•	5.85
Stenheim Yr to Dec 37	202.5	(157.2)	35.6	(30.34)	18	(15.7)		July 5	8.85	10.5	10.35
BHE Resources	102.4	(B5.8)	5.72	(3.624)	172	(10.1)	4.4	May 24	3.73	6.4	5.5
Brandon Hire	14.3	(5.51)	1.50	(0.716A)	6.7	(4.1)	1.5		1.2	2.25	1.2
Britannic Assurance Yr to Dec 31 *	387.20	(410.503)	53.8	(35.5)	25.17	(10.34)	10.8	May 21	9.75	15.4	14
Smiths to Dec 31	93.9	(87	0.133	[126¥]	Ot	(10.9)	nit		NII .		0.5
Carwing (W) Yr to Dec 31	74.5	(99.3)	7.02	[10.6L4)	15.4	(47L)	4.8	July 1	4.56	В	7.5
Clanton Cards Yr to Jan 28	105.8	(84.3)	3.24	12.63 1	12.05	(10.23)	3.35	May 28	3,11	5.1	4.71
Devro lati Yr to Dec 3t	97.8	(98.4)	31.7	(29.1)	17.4	(16.4)	5.11	May 23	4.7	7.7	7.05
Essex & Sulfolk 11 miles to Feb 29	92.9	(87.3)	29.8	(27.4)	227	(204)	43.4	July 15	41.48	86.8	82.28
Erans Halshaw	B34.3	(968.7)	13.6♥	(13.5)	28 8t	[34.2]	11	May 17	10	16.5	15
Flexibleth S Yr to Dec 31	34.9	(23.2)	18.4♥	(TASL)	6.32	(21.531)	nā.	meg II	ndi	nfl	ndi
Harrisons Crustleid Y/ to Dec 31	2.047	(2,110)	119.6	(236.7♥)	10.5	127.3)	5.4	July 1	5.4	9	8
Keller Yr to Dec 31	218.9	(195.8)	11.2	(9.39)	11.74	(122)	3.55-₹	May 31	3.31	5.3	3.8 3.3.
Kwik-Fit Yr to Feb 29	365.4	(297.5)	36.3	(29.3♥)	14.7	(11.9)	3.1	Mey 10	27	5	4.4
Marley Yi to Dec 31	713.8	(566.8)	45.3¥	(58.7♥)	10.21	(15)	2.6	May 31	26	4.7	4.7
Matthews (E) Yr to Dec 31	302	(283.5)	18.7	118.6 1	10.45	n0.32)	2	May 3	1.82	3.39	3.14
Newman Tunks Yr to Dec 31	277.8	(276)	27.2	(20.2)	14.111	(10.65)	7	May 31	4	89	6.75
DGC Indi Yr to Dec 31	232.9	(268.6]	14.2	(129)	14.79	(13.55)	4.3	May 22	3.9125	6.3	5.75
Richardsons W'garth Yr to Dec 31	104.8	(B1.1 1	4.83	(3.24)	8.61	(6.1)	2.25	maj 22	2.1	3.65	3.4
Booner Yr to Dec 31	27.1	(24.8]	4.62♥	(4.41 V)	12.9	(12.4)	4.75	May 10	4.75	8.25	8.25
Seaffeld Resources	6.14	(6.5)	1.87	11.9 1	0.8	(3.1)	4.13	may 10	7.73	٠.20	-
Standerich Yr to Dec 31	39.5	(24)	1.45L	(0.65L.)	0.27L	(0.281)	ni		nii	ndi	0.05
Teispec Yr to Dec 31	58.8	(35.3)	6.734	(6.56 1	17.89	(14.4)	3.6	May 20	2.5	5.4	3.7
form Centre	11.94	110.64 1	4.24	(4.21 1	2.39	2.37	1.05	June 28	1		3.25
Trimity limit Yr to Dec 30	167.9	(164.5)	27.5	[22.8]	21.5†	(21.8)	7.4	May 3	7.4	10.7	10.7
dishorne 8 miles to Dec 31	88.5	(97.7)	0.325	(D.438L)	0.75	(1.97L)	nii	moy 3	rill.		ndi
Nace Yr to Dec 31	311.9	(323.5)	20.54	(23.1]	14.7	(21)	4		3.75	5.85	5.25
Wassaff Yr to Dec 31	972.9	(638.75)	7.5	(21.9 .)	19.5	18.3)	3.95	May 17	2.95	S.5	4.1
Welr Yr to Dec 29	622	(475.5)	45.5	(30.54)	16.6	(13 1	5.3	June 14	4.9	7.5	8.96
The second secon				outable .			Current	Detail of	Corresponding	Total for	Total last
nyestment Trusts	KAY	(9)	Earnin	(2 m)	91	(9)	payment (p)	payment	dividend	year	Age.
Bertinour 9 miles to Jan 31	104.2	896.2)	5.84	(3.86)	12.13	(12.04)	29 <u>†</u>	Apr 30	2.8		12##
Gelmert Setaller Yr to Jan 31	175.1	(136.5)	0.446	(0.285]	3.39	(2.16)	2	May 17	1.1	3.3	2.2

S months: + Comparatives restated. UNet premium income. \$USM stock. \$Foreign income dividend. \$\frac{1}{2}\text{Pert RD.} \phicrose restal and investment income. \$Unit intains, makes 8.7p date. \$\frac{1}{2}\text{Tinchides special of 0.4p; special distribution also indicated for current year.

Marley falls 21% and unveils sale

Marley, the building materials group, yesterday announced the £53.2m (\$81m) sale of most of its automotive components business as it reported a 21 per cent fall in annual pre-tax profits to \$46.3m, writes Andrew Taylor.

Magna International of Canada is buying Marley Automotive Components in the UK. Karl Fels in Germany, and Marley's 50 per cent share in a joint venture with Kansel of Japan. The three companies manufacture plastic instrument panels and components.

The UK group is also dis-

cussing the sale of its stake in its Davidson Marley joint venexpected to fetch more than Marley said automotive com-

panies were now seeking global rather than regional manufacturing facilities and expected component suppliers to develop similar manufacturing and marketing strategies. Mr David Trapuell, chief executive, said profits, exclu-

ding restructuring costs and

gains on disposals fell 9 per

cent to £43.6m (£47.8m). Syroco, the US plastic garden furniture manufacturer bought last March for \$140m made "disappointingly small" operating profits. It had also been affected by high resin costs, ture, the remaining part of its poor weather and generally antomotive division. This is weak US retail sales.

The board of directors of AIVC Europe Holding BV hereby publicise the balance sheet of the company as per December 31, 1995

Fixed assets F 10,000 F1.001.006 Current assets FI.0) 1.006

Shareholders' Equity F1.001.006 Current liabilities F 10.000 Ft.01),006

The net profit (after tax) over

1995 amounts to f 3.087,= The address of the company: Foppingadreef 22 1102 BS Amsterdam

The Netherlands

ILP GROUP PLC at 75p per share by English Trust Company Limite

COMMODITIES AND AGRICULTURE

Canada leads silver production mini-boom? Farmers have agreed to pay royalties on seed saved from their own crops, writes Alison Maitland nies in the UK have run into a new variety. Plant breeding per tonne harvested, on aver financial difficulties and had to has become more complex, age yields.

By Kenneth Gooding, Mining Correspondent

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COMMENT

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A "mini-boom" in silver production is taking place, according to the CRU International metals consultancy. Last year Canada lead the way and 'a surprise revival" is now also occuring in the US. CRU estimates that mined

silver output outside the former eastern bloc countries increased by 10 per cent last year to 11,496 tonnes. Much of the rise was accounted for by Canada, where production increased by nearly two-thirds to 1,254 tonnes. However, after falling to a

seven-year low in 1994, US silver production is on the rise again from mines that have silver as their main product. (About 85 per cent of silver production is as a by-product of other metal mining.)
Among the "pure" silver

mines to be re-activated are Coeur and Galena in Idaho. Silver Valley Resources, a joint venture by Asarco and Coeur d'Alene Mines, intends to restart these mines in June after identifying several new exploration targets. SVR plans to produce at an annual rate of more than 90 tonnes (3m troy

By Kenneth Gooding

1995	
1360	1994
Mexico 2,495	2,300
Canada 1.254	775
US 1.464	1,382
Peru 1.871	1.824
Austrelia 915	1.045
Others 8,497	3,100
Total 11,496 1	10,426

is bringing its Sunshine mine, also in the Coeur d'Alene silver mining district in Idaho, back to full production. Output will rise from 1.7m to 3.2m ounces a year, to give nearly 50 tonnes more of silver.

Royal Silver Mines, which owns the Crescent mine neighbouring the Sunsbina, also hopes to raise the money to re-start mining. Royal aims to produce 400,000 ounces this year (12.4 tonnes).

CRU, in its March Precious Metals Monitor, says that Chile continues to advance as a hig silver producer, the latest addi-tion being the Fachinal goldsilver mine owned by Coeur d'Alene Mines and near the town of Chile Chico in the south of the country. This mine is scheduled to produce : Meanwhile, Sunshine Mining 2.7m ounces (84 tonnes) of sil-

Conflicting messages sent about

162,000 troy ounces of gold to

an average of 210,000 for seven

years from early 1998. RTZ/

CRA puts the cost at US\$47m. TVX, the Canadian company

that effectively owns 33 per

cent, says the total cost of the

expansion will be \$55m, includ-

ing about \$45m to expand gold

output. While that costing is

roughly in line with RTZ/ CRA's estimate, TVX says pro-duction will increase to 260,000

ounces - giving twice as many

Brazilian gold mine expansion

ounces of gold a year. In mid-1996 there should also be a substantial expansion at the Escondida copper mine, operated by BHP of Australia. which will produce an extra

60 tonnes of silver annually.
Only Australia showed a fall in silver output last year because of strikes at Mount Isa - but in late 1997 the Cannington lead-zinc mine is scheduled to be commissioned and this is expected to yield 24m ounces (nearly 750 tonnes) of silver a year - equivalent to 6 per cent of last year's total western world mine output

Substantial additions to silver output are occuring at a range of properties elsewhere, including those in Tunisia. Turkey and Indonesia, where the Freeport McMoRan copper operations in Irian Jaya are expected to be greatly expan-

Looking back at 1995, CRU, suggests the 8.5 per cent increase in silver output in Mexico, the western world's biggest producer of the metal, to 2,495 tonnes, seems "improbably large."

However, it might be that one or two big polymetallic sources of silver, such as Real de Angeles, "bave quietly

RTZ/CRA prediction.

The open pit, low-grade mine

came into production in 1987 at

a cost of \$62m, initially produc-

ing 96,500 ounces a year and

with an expected life of 15

years. As part of the expansion

programma the mine is to give

up employing mining contrac-

tors and will have its own

fleet. TVX says \$14m already

has been spent on new Cater-pillar bulldozers, loaders and

GRAINS AND OIL SEEDS

WHEAT LCE (C per tonne)

Seed breeders win 'fairer deal' in UK

his autumn. British arable farmers will for the first time pay royalties to plant breeders when they use seed they have harvested themselves rather than bought. The use of so-called farmsaved seed has until now been exempt from charge - an increasingly contentious situa-

Following pressure from European Union plant breeders, EU member states decided in September 1994 that farmers should pay royalties on farmsaved seed from the autumn of last year. But they did not set out the rates or method of pay-

After 18 months of often acrimonious negotiations, UK farmers' representatives and plant breeders finally reached agreement last week. The deal is believed to be the first in the EU, but France and Germany are also understood to be close

to resolving the issue. Mr David Taylor, chairman becoming untenable." of the British Society of Plant Many plant breeding compa-



Sir David Naisb: Says deal allows all parties "to lock to the future with confidence".

Breeders, said: "In recent years the decline in the use of certified seed has both reduced plant breeders' income and placed an unfair burden on farmers who opt to sow certified seed. The system was

financial difficulties and had to cut staff and breeding programmes in the past two years. The society says use of farm-saved seed has grown from a

negligible amount in the mid-1960s to between 25 per cent and 30 per cent of the total seed used. Levels are aven higher in some southern EU

armers save seed both to cut down on the cost of buying it - winter wheat seed can cost over £300 a topne - and for convenience They incur other costs in processing the seed and checking the crop for possible disease or weeds, and on the loss of seed which would otherwise be sold as grain.

Mr Taylor said the new system would be "fairer for all" and would help keep the arable sector profitable in highly competitive international markets. The society says it takes an

bas become more complex, with varieties having to be tailored to particular uses such as barley for malting, or to be designed to withstand reductions in pesticide use.

Farmers' representatives were initially opposed to pay-ments and the National Farmers' Union of England and Wales vetoed an earlier deal in 1991. When negotiations began in order to comply with the EU regulation, the NFU was arguing the rate should be set at about 20 per cent of the cost of certified seed, while breeders

were calling for 80 per cent. Sir David Naish, NFU president, said there bad been "much hard bargaining" but the deal allowed all parties "to look to the future with confi-Each crop will carry a single

payment rate. The payment for farm-saved wheat seed will be £4.25 per bectare and for winter barley \$3.60. The NFU said that would be equivalent to 60p processing farm-saved seed.

nies in the UK have run into a new variety. Plant breeding per tonne harvested, on average yields. The royalties will apply to cereals, oil and fibre crops, fod-

der plants and potatoes. Farmers with more than 13 hectares of the relevant crops will pay breeders only on land sown with varieties on the European Plant Variety Rights list, which was established last year. The plant breeders' society estimates at least a third of varieties will be affected, and this proportion will grow as new varieties are added to the

There will be a concession for farmers who can show they saved a variety before Septem ber 1, 1994 - they will not have

to pay a royalty until 2001. Collecting payments from up to 78,000 arable farmers is a potentially costly business. So both sides have reached a deal with the National Association of Agricultural Contractors to collect the royalties when it

Jute output tumbles in India and Bangladesh

attempt to import fibre from

the other inte-growing coun-

tries. "But it bas drawn a

blank," be said. "China has a

marginal export surplus. The

Mills are finding it increasingly difficult to maintain production of goods, writes Kunal Bose

ute production In India and Bangladesh, the world's leading producers, has taken such a beating in the current season (July-June) that the mills are finding it increasingly difficult to get enough fibre to maintain output of jute goods. The Indian mills are in a worse predicament as, unlike Bangladesh, India has been a net importer of jute for the past few years. ded from last year's output of extra annual ounces as the

India, which last year imported 330,000 bales (180kg), mostly from Bangladesh, will find it difficult to organise imports of more than 100,000 hales this season, according to Mr D.J. Wadhwa, managing director of Champdany Industries, the country's leading jute group. Not only had Bangladesh a small export surplus in 1995-96, but the movement of raw jute by road had become uncertain because of the political crisis there. The shortage of raw jute in Bangladesh has raised the price to a level at which only indian mills making high added value products like export grade yarns and fine fabrics can afford to import.

The price of the benchmark grade Bangladeshi Tossa D has risen to \$580 a tonne from \$265 a vear ago.

According to Mr Shankar Ladla, spokesman for the Indian Jute Balers Association, "the current seasoo's crop in Bangladesh will be less than 4m bales against 5.17m bales in 1994-95". He said the mills there needed about 3.3m bales. while another 400,000 bales were consumed in the villages. "Bangladesh generally exports 1.5m bales of jute a year. But this season, the raw jute export is going to be much less."

Mr Wadhwa confirmed that a

kenaf [a jute substitute] crop in Thailand is small enough, forcing it to import fibre from Bangladesh. Unlike last year we did not meet with any luck in Vietnam. Maybe, we will get some jute from Burma. Pakistan, which has jute mills but which does not grow jute, is an aggressive buyer this season." The raw jute crisis in India is

already so deep that all six mills in the government sector and some private mills have started working six days a week instead of seven to "conserve whatever fibre they can for the future," according to an Indian Jute Mills Association official. "There are at least 30 out of 68 operating mills which

group of Indian mills made an have jute stocks of less than ing record prices and according four weeks requirement. Only to Mr Ladia "the prices are seven units have been able to build stocks for about ten weeks consumption. As the weak mills are facing a severe cash flow problem, the traders are insisting upon payment in

> A consensus was developing in the industry that to avoid a haphazard closure of mills at the end current season and in the first two months of 1996-97 the jute commissioner should invoke his powers under the Jnte Licensing and Control Order to regulate production of inte goods and also fix a ceiling on raw jute stock holding by the mills, said the LJMA offi-

> Trade union leaders maintain, however, that the government should first launch a

> > JOTTER PAD

likely to go up even further in the coming weeks". "Much will depend," he said. on whether West Bengal and

Assam, the country's two most important jute growing states. will receive rain in March to enable the growers to go for early sowing. The March rain will have a sobering impact on the fibre prices." In the meantime, the Indian

Jute Advisory Board has concluded that the current season's crop will not be more than 7.8m bales, to which must to be added opening stock of 900,000 bales and imports of 100,000 bales. The jute mills sumption by the paper mills and villagers will be at least 600,000 bales. Next season, massive dishoarding operation.
Indian raw jute is commandgible stocks of 200,000 bales.

the mine, says it will be expan-COMMODITIES PRICES

Brazil's second largest gold

mine is to be expanded but

there are conflicting messages

from the owners about the

scope of their plans. They can-

not even agree on the name of

the mine - RTZ/CRA calls it

the Morro do Ouro while TVX

RTZ/CRA, the world's blg-gest mining company and 51

per cent owner and operator of

Gold calls it as the Brasilia.

BASE METALS LONDON WETAL EXCHANGE Prices from Amalgemeted Metal Tracing M ALUMINIUM, 98.7 PURITY (5 per torme)

Close	1623-24	1655-56
Previous	1604-05	1636-37
High/law	1611,5/1610	1658/1639
AM Official	1611-11.5	1642-49
Kerb close		1655-6
Open Int.	213,424	
: Total daily turnover	45,608	
E ALUMINIUM ALL	OY (\$ per tonne)
Close	1370-80	1410-15
Previous	1355-65	1397-400
High/law		1410/1405
: AM Official .	1368-70	1400-405
Kerb close		1410-1S
Open int.	5,476	
· Total daily turnover	877	
■ LEAD (\$ per tonne	a)	
Close	912-14	811-11.5
Previous	924-25	828-9
High/low ·	933/900	832/805
AM Official	900-2	B07-8
Kerta clase		B10-11
Open int.	40,735	
Total daily turnover	13,932	
MICKEL & per tor	me)	
Close	8240-50	8345-48
Previous	<i>8</i> 120-30	6220-30
High/low		6350/6260
AM Official	8080-90	8265-90
Kerb close		8340-45
Open int.	40,605	
Total daily turnover	11,706	
E TIN (5 per tonne)		
Close	6370-80	6400-405
Previous .	6245-55	6285-90
High/low		6390/6280 6340-50
and continued	691/1-90	FE 140 1-50

6310-20 E ZINC, special high grade (\$ per 1097/1099 1096-96.5 1072-73 Kerb close Open int. Total daily furnover COPPER, grade A & per tonne 2535-96 2537-38 2542-44 2544 5-46 S III LANE AM Official 2/5 rate: 1.5375 LIME Closing 2/5 rate: 1.5365

117.80 +0.20 178.50 116.70 578 2.374 117.60 +0.03 117.60 116.70 222 2.739 117.10 +0.25 117.50 115.80 8.763 20.393 115.85 +0.35 115.85 115.30 11 115.00 +0.50 115.30 114.00 287 PRECIOUS METALS

Spot: 1.5380 3 mills: 1.5358 8 write: 1.5338 8 mills: 1.5318

III LONDON BULLION MARKET (Prices supplied by N M Rothschild) S orice Opening \$84.50-384.90 258,732 489.811 256.812 471.11S 256.812 394.50-394.90

Loco Loin Mean Gold Lending Rates (Va USS) US cts equiv. 550.25 555.95 p/troy oz. 357.7\$ 362.00 366.35 375.90 561.85 574.95 £ equiv. 256-258 \$ price 394-397

405.70-408.25 92-85

Precious Metals continued GOLD COMEX (100 Troy oc.; \$/troy oz.] 398.0 +0.6 - - 4 - 398.5 +0.5 396.8 395.1 14,305 65,084 398.4 +0.4 398.7 398.1 7,070 53,791 402.0 +0.4 401.5 401.0 191 12,685 404.5 +0.5 405.0 405.0 94 15,452 22,636 197,708

Total		,,,,,				197,706
E PL	MUNITA	MYME	(BO Tr	oy 02.	S/tray (z.1
Apr	413.5	+0.5	4139			11,070
Jul	415.3	+0.3		415.0 416.5	541	8,785
Just	419.0 421.8	+0.5 +0.5	418.5	410.5	6 2	1,935 782
Apr	424.5	+0.5	-	-	1	360
Total				_		22,912
E PA	LLADIUM	NYME	X (100	Troy o	_	y (32.)
Mar	140.25	-0.20	140.40		_1	39
Jan Say .	140.75 141.75	-0.20 -0.20		140.00	327 35	6,295 309
Dec .	142.75	-0.20	-	-	4	73
Total					327	6,716
	VER CO	MEX (5	000 Tn	oy oz.: (Centari	ON OST)
Her	555.4	+5.0			21	63
May	558.7 563.2	+4.7 +4.9	\$59.5 584.0	550.0 555.0	6,312 221	52,596 14,002
See	567.7	+4.9	568.0	580.0	30	11,046
Deg	574.8	+4.9	25,07	568.0	52	7,499
Mar Total	582.3	+4.5	581.0	574.0	11	3,163
100					-	41,000
	RGY					
■ CR	UDE OIL	NYME	X (42,0	00 US	ah. S	ратав
	Latent					Dpan
		charge	High	Low	Vol	let .
Apr	23.35 21.18	+0.33	25.60 21.55		40,793 58,115	27,322 99,557
May	19.86	+0.25	30.10		21,911	
.lel	18.99	+0.22	19.15	16.75	9.771	45,168
Aug	15.53 15.15	+0.19	18.64		4,509	28,400 22,095
Sep Total	10.10	+0.13	10.30		40,215	
	UDE OIL	PE G	Беггей			
	Latest	Day's			_	Opes
		chatge) High	1.0%	Vol	int
May	19.04	+0.43	19.28		19,335	79,286
Joseph	18.00	+0.33	18.24	17.20	9,618	35,029
Jel Atap	17.35 18.98		17.18	16.97	1,345	11,852
Sep	18.76	+0.23	1863	16.72	580	12,275
Det	16.60	+0.21	16.60	16.60	157	3,296 203, 295
Total	ATING O		7 42 C	n IS mi		
A PRE			× 1120	<u></u>		
	Lathet	Dey's	High	Low	Yol	Open
-	64.50	+2.24	65.60		17,355	22,294
May	56.30	+1.34	57.20	54.96		18,455
Jest Jed	52.18 50.85	+0.30	53.30 51.70	51.85 50.85	2,814	12,179 8,685
Aug	51.18	-0.05	52.00	51.00	750	7,909
Sup	51,50	-0.20	51.60	51.50	209 30,930	
Total					30,000	41,514
GA	S OIL PE					_
	Suit	Day's			Yol	Open int
	prior 184.25	+7.25	188.00	178 50	16.375	72.00G
May	168.75	+1.00	171.50	156.75	0.225	11,223
.ham	151-00	+1.00	162,75	160.DQ	3,327	9,143
	156.75 156.50	-0.25 +0.25	158.25 157.00	158.75 158.60	277	4,928
Aug	156.50	+0.25	157.00	158.00	173	1,754
Trefail					30,343	
■ NA	TURAL G	AS N/A	EX (10)	000 tom6	301.; \$/m	DEBET)
	Latest	_				Open
		الوادات	High.	LOW	Wol	H
Apr		+0.062	2.618	2.485	30,848	25,855
May	2.375	+0.045	2.390	2.310	12,998 6,124	19,011
Jun	2.195	+0.024	2.218	2 070	2 667	15,085
Jul Ang				2.035	1,722	14,299
	2005	0.024	2015	1.897	1,663	17,430
San					PR 100 1	-
Sap Total					auten.	
Total	LEADED EX (42,000	GASO	LINE			

0 +0.58 65.30 64.00 8,300 1 0 +0.69 63.18 62.00 3,081 7 -1.25 69.60 53.50 1.179 57.50 862 486 68.45 65.10 14.202 25.146 64.60 8,330 28,783 1,179 7,242 862 4,049 486 1

119.20 +0.85 119.20 118.20 10 45 Mar 120.00 +0.50 121.45 119.90 167 3,371 Mary 122.75 +0.25 123.50 122.00 99 709 Jet 110.00 - 110.00 110.00 10 246 Sep 111.45 +0.20 111.70 111.25 55 1,508 Dec 113.18 +0.15 - - 384 Mar 361 6,380 Total 640.00 +35.00 500.00 500.50 504 590 481.00 +11.25 485.00 485.00 7,118 26,000 45.25 45.05 439.25 11,734 41,477 452.25 +4.50 435.75 442.75 2,174 82.75 453.00 44.25 463.30 454.00 651 6,173 464.00 +2.00 464.90 456.50 22 339 22,533 86,131 MAZZE CBT (5,000 by min; conts/56to bushel) 396.50 -1.75 401.00 360.50 4.151 2.082 367.00 +1.50 367.75 383.75 50.823 193.150 376.25 42.75 377.00 371.50 16.324127,070 75,485 402,843 108.25 +0.80 108.75 108.75 109.15 +0.25 108.00 108.00 108.85 -0.85 108.10 108.10 108.00 +0.95 108.00 108.00 SOYABEANS OUT 5,000 win; cont/600 bushen 708.00 +1.25 708.00 705.75 1,475 714 78.75 +3.50 720.00 705.07 13.50 35.55 59.800 778.75 +3.50 720.00 773.50 35.55 59.800 777.00 +3.50 728.00 721.50 10.114 52.003 772.20 +3.00 728.50 728.00 13.77 7.805 722.00 +3.00 728.20 718.00 222 3.847 721.00 +2.25 722.00 718.00 7.109 55.340 SOYABEAN OIL CET (60,000 bs: cents/b) SOYABEAN MEAL CET (100 tons, Shart) E FREIGHT (BIFFEX) LCE (\$10/Index point) 175 57 32 19

Nuts and Seeds
Prices from Keridro Group; USS a tonne, Iranten pistachios 28/30 raw (in shall naturally
opened (round); 1986 crup 3,400 CFR/FOT
MEP, 28/28 3,500 CFR/FOT MEP - reasted
and salted 28/30 at 3,900 ex-Hamburg, vacuum paole, US almonds (shelted) 23/25 NPSSR
1985 crop at 6,100; stable, US walnuts LHP
20% - 5,800 FAS California; down with lower
demand, Indian casheers raw: 1995 crup,
M-320, 5,950 apot Europe fraw crup estimate demand, Indian cashers raw: 1930 crop, W-320, 5,950 epot Europe (new crop estimate at 6,850); W-240 6,310 spot Europe (new crop estimate at 6,100). Turiosh hazahut kernela, 13/15 strandard 1s, 1995 crop up sharply at 2,750 FOR MEP. Purnipkin seeds: Russian 2,750 FOS MET. FALINAIS SEEDS. FURSION STOP WHITE 1995 COOK, long, grade A, et 1,850 FCA Europe; round type 2,250. Turkish apricots, stos 4, 1,850 GFR MEP; quiet. Chinese grade A pins kernels, 1995 crop at 4,800 GFR from origin.

E COCOA LCE (E/tonne) 873 -7 - - - 30 882 -7 905 891 1947 24,622 912 -8 928 913 777 16,632 932 -7 945 932 599 38,921 943 -8 956 942 811 19,105 963 -8 975 963 892 39,940 6,195 152,448 COCOA CSCE [18 tonnes; S/tonnes] 1237 1263 1284 1319 1335 1363 1218 4.062 34.866 1343 1.841 22.618 1269 1.462 13.258 1306 169 13.776 1335 200 7.696 COCOA (ICCO) (SDR's/tonne -35 2070 -15 1921 -9 1840 -7 1817 -6 1791 -7 1770 117.70 -1.35 119.65 117.60 4.555 16.500 177.70 -1.35 119.85 117.80 4.329 178.50 -1.45 112.20 118.40 979 115.55 -1.05 116.50 115.50 113 114.55 -0.60 115.75 114.50 144 114.60 -0.55 - 3 112.50 -1.00 - 1 COFFEE (ICO) (US conts/pound) 11.90 11.90 11.90 MHITE SUGAR LCE (S/torme) 38.0 -22 400.0 396.3 1,198 12,995 374.3 +0.1 374.5 372.4 579 7,545 338.0 +22 337.9 335.0 360 4,885 336.5 +1.8 327.8 324.5 34 2,579 320.5 +3.3 319.0 317.0 16 943 317.3 +4.8 312.5 312.5 5 763 2,292 29,711 12.45 +0.02 12.9 12.32 8.442 54.855 11.16 +0.05 11.17 11.05 5,671 39.218 10.05 -0.05 10.070 10.55 1,825 27.575 10.34 -0.07 10.49 10.33 1,575 15.729 10.25 -0.07 10.29 10.26 13.5 4,622 10.06 -0.09 10.15 10.10 103 1,850 17.77914.4213 10.33 1,575 15,729 10.26 135 4,422 10.10 103 1,860 17,779 154,213 ■ COTTON NYCE (50,000lbs; pents/lbs) 85.65 +1.75 85.79 83.95 3.554 20.522 85.16 +1.25 86.30 84.80 1,430 12,031 81.80 +1.15 81.80 80.80 228 2,594 79.99 +0.44 80.99 79.55 841 18,088 80.83 +0.33 80.80 80.80 115 1,829 81.35 +0.30 - 80.87 44 84.84 8,316 57,912

W ORANGE JURCE NYCE (15,000lbs; carcs/lbs) 131.85 -0.15 132.70 130.90 2.667 15,845 130.45 -0.36 130.80 130.00 522 4,329 128.15 -0.10 128.50 128.00 258 2.214 124.55 -0.25 - 7 894 122.60 -1.15 122.60 122.50 5 2.680 124.60 -1.15 125.25 125.25 - 167 Open interest and Volume data shown to contracts traded on COMEX, NYMEX, CBT NYCE, CIME and CSCE are one day in arrears ■ REUTERS (Base: 18/9/31=100) Mar 18 month ago year ago 2140,7 2147,6 2321,6 E CRB Putures (Besa: 1967=100) Mar 19 Mar 18 month ago 249.90 250.43 249.93 B GSCI Spot (Base: 1970=100) 234.48

MEAT AND LIVESTOCK Sett Bay's (40,000 bs; cents/bs)

Sett Bay's (40,000 bs; cents/bs)

Price change lifts Low Vul bit

Apr 64 525 -0.35 65,000 64,500 55,908 26,150

Apr 63,075 -0.05 63,200 62,875 1,230 15,229

Oct 63,925 -0.025 63,950 62,575 1,230 15,229

Oct 63,925 -0.025 63,950 62,575 1,230 15,229

Feb 52,850 +0.25 52,850 62,550 50 3,211

Tit,508 02,118 ■ LIVE CATTLE CME (40,000lbs; censs/lbs)

■ LIVE HOGS CME (40,000lbs; cents/bs) -0.05 49,700 49,650 -0.1 54,000 53,400 +0.2 52,000 51,550 +0.1 49,325 49,000 +0.075 45,650 45,400 +0.2 48,800 46,450

88.900 - 89.000 67.400 75 67.750 +0.125 68.750 66.950 2.259 64 825 +0.275 65.190 64.950 452 61.250 +0.475 61.500 60.750 48 61.375 +0.425 61.550 61.750 13

LONDON TRADED OPTIONS Strike price 5 toone

1500 E COPPER 2400

LONDON SPOT MARKETS E CRUDE Oil FOB (per barrel)

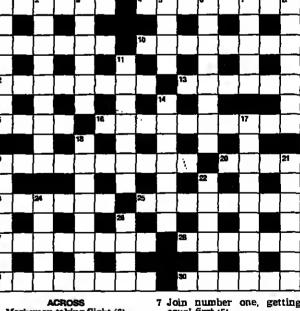
+0.03 -0.025 S18.81-8.83 I Oil PRODUCTS NWE prompt delivery CIF (tonne) Heavy Fuel Oil Naphtha Jer fuel Diesel Petrolaum Argus. Tel. \$173-175 \$224-228 \$198-200 0171) 359 8792 Gold (per troy oz)

\$138.75 124.0c Lead (LIS prod.)
Tin (Kusta Lumpur)
Tin (New York) 45.000 15.80r 300.5 Cattle (tive weight)†
Sheep (tive weight)†
Pigs (tive weight)† 11*8*,12p 155,91p 107,05p Lon. day sugar (raw Lon. day sugar (with \$328.5 \$408.5 Barley (Eng. feed) Maize (US No3 Yallow Wheat (US Dark North 113.25 146.5z Unq. Rubber (Apr)♥ Rubber (May)♥ 368.00m \$727.5v +7.5 +7.5 Coconut Oil (Philis

Paim Oil (Malay.)§ Copra (Phil)§ Soyabeens (US) Cetton Outlook'A' Index E per torrie unless otherwise stated, p pens r raggaths, in Materialia certarlis, A May, v Jun V London Physical, § CIF Rotterdam, class. • Sheep (Live weight prices). • C

457.D

CROSSWORD No.9,024 Set by DANTE



1 Marksman taking flight (8) 4 In the event it's severe pun-9 Organised raid in back-street

exposed Chinese criminals (6) 10 Anna is to transpose music (8) 12 PM taking vessel from Spanish isle (8) 13 Menace that surrounds a soldier (6) 15 Excursion and dance (4)

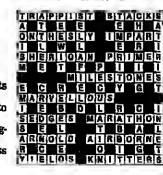
16 Stupid attendant in lift (4.6)
19 Disengagement of military
24 Puzzle concerning public unit (10) transport (5)
20 "The Church" incomplete as 26 Patient biblical character address for a priest (4) 23 Is against using Latin (6)

25 Vessels upset by Socrates (8) 27 A fetching breed of dog (8) 28 May be in leaf at last (6) 29 Non-stop walker (8) 30 Give the call-sign (6)

A shot at test (7)

2 Establishment fleecing its customers (4-5) 3 Last though almost sure to finish on top (6)

5 One to scrutinise a good fig-



11 Cleaners with free space (7)

14 Forsake careless freedom (7)

17 Discussion going overboard?

18 A copper-lined box produced

with precision (8)
19 Work in the dark to get nega-

21 Orders are sent from Asia (7) 22 Have ambitions for a high

takes to a headstrong one (4)

Solution 9,023

tive results (7)

Weak US sales data prompt sharp advance | Republic of Argentina sets

By Richard Lapper in London and Lisa Bransten in New York

Government bond markets performed strongly yesterday with weak US retail sales data triggering price rises in both the US and European markets. Although bigger investors, many of whom hold long positions, were again on the sidelines. European markets shrugged off early worries sparked by higher-than-expected money supply figures in Germany, "This was an amazing bounce back," said Mr Andrew Roberts, gilts analyst at UBS in London. "The figures in tha US were excellent news for bonds, it is as if the market

■ US Treasury prices were higher in early trading yester-day as the weak retail sales figures eased fears that the economy was posting a rapid rebound from the weakness seen late last year.

has come out of a coma."

Near midday, the benchmark 30-year Treasury was 21 stronger at 91% to yield 6.658 per cent, while at the sbort end of the maturity spectrum, the two-year note was 🗓 stronger at 98%, yielding 5.727 per cent. Gains on the market led to a steepening in early trading of

cent last month to rebound from January's 0.1 per cent decline. Sales were stronger than the main index suggests, however, because the January figures were revised upwards from the originally reported figure showing a decline of 0.3

Nevertheless, the sales weakness gave bope to some investors worried that the economy was beating up very quickly. Ms Marilyn Schaja, money market economist at Donaldson Lufkin & Jenrette, said: "These data indicate that a moderate pick-up in consumer spending took place in February, but not the robust strength that had been feared

and survey reports for that month." She does not expect the Federal Reserve to lower interest its Open Market Committee. but she does foresee lower short term interest rates by the

following the strong anecdotal

end of the year. ■ German bonds fell sharply on news of higher-than-expected M3 figures, with the June bund future at Liffe dropping to a mid-morning low of 94.81. the curve between two-year But later in the day the marnotes and the long bond, by 6 kets rebounded on the back of

Retail sales gained 0.8 per bund contract advancing to opening in the US. On Liffe the close at 95.80, np half a point. in the cash market yields fell across the curve, although four-year paper performed particularly strongly, with yields dropping by 11 basis points

GOVERNMENT BONDS

compared with a 6 basis point fall in the two-year sector and a 5 basis point fall in the 10year area.

The M3 figures showed an

annualised rise of 16.6 per cent compared with an 8.4 per cent rise in January and market expectations of 7.6-9 per cent. The higher M3 figures rule out a cut in Germany's key interest rates later this month and could rule out a reduction until May, said analysts. "The headline figure complicates the Bundesbank's job of managing expectations in the bond market," said Mr Ricbard Reid, chief economist at SBG/UBS in Frankfurt. "The bank needs lower inflation data to be able to justify another cut in short

External factors were influential in the UK, with gilts first falling in line with the German market and then ris-

basis points to 93 basis points. the US figures, with the June ing on the back of the bright ary indicated that inflationary June long gilt contract made steady progress during the afternoon, settling at 105%, up more than half a point. Mr Roberts at UBS said that

domestic economic data - a little lower than expected mone-tary growth in February and retail sales figures in line with market expactations - had helped gilts breach a key tech-nical resistance level of 105%. Weak numbers for retail price index, due today, will also belp gilts advance, he predicts. "All the supports are there for the

■ The French market also took its cue from developments in the US and Germany. At Matif the June contract settled at 120.96, up 0.20, whila June Pibor settled unchanged at 95.61. In the cash market OATs initially outperformed bunds, with the 10-year yield spread narrowing at one point in the day to 11 basis points, before closing 2 basis points wider at 17.

Traders in Paris reported that the tightness of the spread had prompted arbitrage, with dealers shorting OATs and buying bunds.

■ In Sweden, lower than expected retail sales in Jann-

pressures are abating, strengthening expectations for a further cut in interest rates later this week.

Mr David Brown, chief European economist at Bear Stearns, expects the country's yield curve to steepen further predicting that the spread etween two and 10-year bonds will widen from its current level of 148 basis points to 175 basis points over the coming weeks. He also suggests that Sweden will continue to outperform Germany, arguing that the 10-year yield spread over bunds could fall from its closing level of 221 basis points - down 5 points on the day -

■ Both the Italian and Spanisb markets also enjoyed a good day. On Liffe BTP futures sattled at 109.15. up nearly three quarters of a point, while in the cash market the 10-year yield spread over Germany narrowed by 5 basis points

to 200 hasis points "very soon".

Spanish bonds surged helped by expectations that the Popular Party will be able to form a stable government. At Meff the June 10-year bono gained nearly a point, while the 10-year yield spread over Germany narrowed by 11 basis

in eurosterling yesterday with

records with DM500m issue

In a volatile government market environment, primary activity was relatively modest. with only one high-profile deal. The Republic of Argentina set two records - in coupon rate and maturity - with its latest 10-year, DM500m issue offering a spread of 475 basis points over bunds. Due to the long maturity - the longest existing D-Mark issue by a Latin American borrower was a seven-year maturity - plac-

ing the issue was risky.
But Deutsche Morgan Grenfell, the lead manager, enticed investors by setting the coupon at 11% per cent, "the highest existing coupon in D-Marks". Deutsche said the placement was successful, with about 25 per cent of the amount sold vesterday.

The bonds were trading at 98.90-99.00 in late afternoon in London, "a comfortable level for syndicate members whose cost is 98.07". The lead man-ager said it saw "strong demand from Swiss and Benelux banks", which traditionally filter the bonds through to retail investors.

LGT Finance made its debut

a £50m issue maturing in 2006 and paying an 8% per cent coupon. The lead manager, UBS Ltd. said the placement "went smoothly". Although the bor-rower is not rated and little known on the euromarket, the paper is guaranteed by tha parent, LGT Bank in Liechtenstein, "considered equivalent

to UBS. INTERNATIONAL

BONDS

to a solid double-A", according

Iceland, whose last eurobond issue was more than a year ago – a 10-year Y15bn offering via Daiwa - is making a comeback. It is expected to tap tha euromark sector today with a five-year floating-rate note for a total of DM250m.

The Federal National Mortgage Association (Fannie Mae), the second largest US borrower after the Treasury, is planning to tap a new non-dollar currency market this year by issning global bonds. Fannie Mae, always on the look-out for new sources of funds, was the first US agency to issue global bonds, back in July 1994, and bonds denominated in D-Marks. However, it will only go ahead with the transaction if currency swap rates are attractive, because all its financing is systematically con-verted into US dollar liabilities. Ms Linda Knight, Fannie Mae treasurer, insisted that the agency "only issues global bonds when [the all-in cost to the borrower] is cheaper than

on the domestic US market". In a move aimed at adjusting its capital structure to match the risk exposure on its assets. Barclays Bank has asked BZW to arrange a buy-back of three series of eurodollar perpetual notes, known as "Barclays Old", "Series 1" and "Series 2". Holders of the notes are myited to tender the paper before March 25. Up to \$400m nominal will be bought back and can-celled, out of an outstanding total amount of around \$1.5bn.

The Royal Bank of Scotland has chosen Lehman Brothers to lead manage a \$125m issue of undated subordinated yankee bonds. The bonds will be callable after 10 years and every five years thereafter. This week RBS issued notes with a similar structure

denominated in sterling. The proceeds from both issues will qualify as tier-two

Fund for south-east Asia investment launched

By Ted Bardacke in Phnom Penh

Frontier Fund Management has launched a South-east Asia Frontier Fund for regional investment in countries which many international investors find it difficult to access -Burma, Cambodia, Laos and

The fund, closed-end with a minimum size of \$25m and maximum of \$75m, will invest primarily in unlisted companies, joint ventures and greenfield projects with a medium-term potential for listing on a with the south-western nese province of Yunnan.

bly Thailand, which at the moment has the only legalised

bourse in the region. Other listing options include Australia, Singapore, Toronto and Nasdaq. The fund itself will be listed on the London

Stock Exchange.
In particular, the fund will target investments in companies with operations in more than one country within the Mekong sub-region comprised of Burma, Cambodia, Laos, Thailand and Vietnam, along with the south-western Chi-

"Since there are no stock markets and the investment projects are primarily startups, diversifying risk across borders but in the same industry reduces some of the event and operating risks," said Mr Gene Davis, managing director

of Frontier. This is one of the rare cases where investors can reduce the risk associated with a single country fund, for example Myanmar [Burma] and Vietnam, and also increase prospective returns." Mr Davis

The fund will concentrate on

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

■ NOTIONAL ITALIAN GOYT, BOND (BYP) FUTURES (LIFFE) Line 200m 100ths of 100%

sectors that are usually first to take off in emerging economies: tourism, real estate, mining and natural resources. financial services, construction materials and infrastructure mainly energy, transport and

One potential investment example is Northbridge Com-munities, which develops integrated expatriate communities which combine office, retail and residential space with international school facilities. The company already has one complex operating on Thai-land's eastern seaboard and

Apr

has additional projects under construction in Phnom Penh and Hanoi. Additional sites in Ho Chi Minh City and Rangoon are under negotiation.

Frontier, which currently manages the \$50m Vietnam Frontier Fund, is an affiliate of Bangkok-based Finansa Thai, a regional merchant banking company specialising in direct investment schemes in the Mekong subregion. Lead manager for the place-

ment of the fund is ABN

Ambro HG Asia. Subscription

FT-ACTUARIES FIXED INTEREST INDICES

121.77 145.73 158.26 182.95 140.98

Wed Day's Mar 20 change %

+0.12 +0.40 +0.69 +0.18 +0.34

closes on or about April 9.

UK Oilts

Up to 5 years (24) 5-16 years (19) Over 15 years (6)

S Up to 5 years (11)

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount, m.	Coupon %	Price	Maturity	Fore	Spread bp	Book-numer
US DOLLARS HCLT 1996-1(e)±	638.4	(a1,s)	100.00	Mar 2006			Lehman Brothers
SBC Jersey(b)	200	6.00	99.85A	Mar 1999	0.1875R	-3.5(5%-99)	SBC Warburg
UBS Finance(c/S	125	2.50#	100.00	Apr 2001		-0.0(379-00)	UBS
ANC Banking Groups	100	(b,d)	99,998	Mar 1997	0.03R	_	Memai Lynch Internetional
Banco Hipotecario Nacional	75	10.6255	99.937R	Mar 1999	0.875R	+475(54-99)	Dautsche Morgan Grenfell
D-MARKS							
Republic of Argentina	500	11.25	99.47R	Apr 2006	1.375R	+475(8Feb06)	Dautsche Morgan Grenfell
Bank Austria	200	4,50	99.8582R	Apr 1999	0.1875R		Westdeutsche Landesbank
SWISS FRANCS Astingo	200	4.375	102.90	Apr 2004	2.625		Credit Suisse
			102-00	740 200-			
STERLING LGT Finance(s)	50	8.75	99.24R	Dec 2006	0.375R	+53(7)496-08)	UBS
AUSTRALIAN DOLLARS GECC	100	8.00	100,77	Apr 1998	1,25		Hambros Bank
CANADIAN DOLLARS Kingdom of Sweden(s)	100	7.125	99.868	Dec 2000	0.225R	+7(7)/2%-0(1)	ABN Anno Houre Govett

7.55 8.30 6.37 8.39

3.02

- Low coupon yield - Medium coupon yield - High coupon yield - Mer 20 Mer 19 Yr. sgo Mer 20 Mer 19 Yr. sgo Mer 20 Mer 19 Yr. sgo

7,59 8,33 8,39

8.50 8.50

1.78 3.61

7.83 8.38 8.43

1.61

2.29 3.59

7.54 8.28 8.39

Benchi	Antala ball	44						
		Соцроп	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		10.000	02/06	107,1260	-0.140	8.91	9.05	8.05
Austra		8.125	02/06	96.4700	+0.140	8.62	6.68	6.80
Belgarn Canada "		7,000 6,750	12/05	101,1900 106,7900	+0.440	6.83 7.74	7.34 7.73	6.58 7.00
Desmark		8 000	03/06	102,7000	+0.580	7.60	7,72	7.32
France	BTAN	5.750	03/01	99,4200	+0.170	5.90	5.80	5.49
	CAT	7.250	04/06	104,2200	+0.320	6.66	S,71	6.52
Germany Bu	nd	6.000	05/09	96 5700	+0.500	6.48	6.57	6.09
Ireland		6.000 9.500	08/06	100,0000 94,4400	+0.450	7.99	8.10 10.48	7,47
italy Japan	No 129	9.500 8.400	03/00	0.0000	+0.560	10.41†	1.83	9.87
O Mere	No 182	3 000	09/05	0.0000	- :	0.00	3.23	2.90
Netherlands		6.000	01/06	96,2000	+0.470	6.53	6.56	8.13
Portugal		11 875	02/05	112,4000	+0 430	6.72	9.77	9.52
Span		10.150	01/06	101,5200	+1.010	9.87	10.05	9.71
Sweden		S 000	02/05	83.7490	+0.642	8.70	9.04	8.77
UK Gits		8 000	12/00	102-11	+7/32	7.39	7.46	5.90
		7 500 9,000	12/06 10/08	96-03 106-13	+17/32 +20/32	8.05 8.17	8.13 8.25	7.63 7.78
US Treasury	•	5 625	02/06	94-23	+11/32	S 35	6.36	5.63
00		6 000	02:26	91-13	+11/32	6.67	6 67	6.12
ECU (French	Govi	7 500	04.05	101.7700	+0.410	7.22	7.31	8.85
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SGA SOCIETE GENERALE

ACCEPTANCE N.V. FRF 1.000.000.000

NOTES DUE DECEMBER 17, 1997

For the period March 20, 1996 to June 19, 1996 the new rate

has been fixed at 19,5625 %

Next payment date: June 19, 1996 Coupon nr: 13 Amount: FRF 4944,97 for the denomination of

FRF 100 000 Amount : FRF 49449,65

for the denomination of FRF 1 000 000

rdinated Floating Rute

Notes due 2001

ISIN CODE: XS0032089822

For the period March 20, 1996

to June 19, 1996 the new rate

has been fixed at 4,375 % P.A.

Next payment date : June 19, 1996

Amount : FRF 221.18

for the denomination of FRF 20 000

The Principal Paying Agent SOCIETE GENERALE

BANK & TRUST - LLDGENBOURG

Advance Bank Australia

Floating Rate Notes 1999

The notes will bear interest at

5.7875% per annum for the

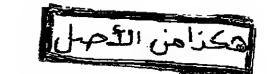
interest period from 21 March 1996 to 21 June 1996. Interest

will amount to US\$147.90 per

Agent: Morgan Guaranty Trust Company

Limited

US\$250,000,000



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MARKETS REPORT

CURRENCIES AND MONEY

Dollar remains confined to tight trading ranges

By Philip Gawith

. The dollar yesterday remained confined within narrow trad-

ing ranges, despite the release of strong German M3 figures. This continued the recent pattern, which has seen the dollar unmoved despite much stronger than expected Japanese GDP figures, and the exceptional US payrolls report. The dollar closed in London

at DM1.4775, from DM1.4762. and at Y106.57, from Y106.315. In Europe the Swedish krona continued its recent run, closing at SKr4.485 against the D-Mark, from SKr4.518.

Sterling finished the day at DM2.27, from DM2.2619. It is now within sight of DM2.2741. the 1996 high. Against the dol-lar it finished at \$1.5364, from

The Taiwan dollar cootinued its recovery as concern over Chinese military exercises waned. The currency closed at T\$27.185 against the dollar from T\$27.3145.

POUND SPOT FORWARD AGAI

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■ For all the dollar's prob-lems in making a decisive upward break, there is no shortage of heavyweight pun-dits who oumber among its fans. One of these is Mr Mike Rosenberg, head of loterne-rional bond and currency analysis at Merrill Lynch in New York.

It is just a matter of time before the dollar takes off," be said, pointing out that interest rate spreads were running heavily in the dollar's favour. At the two year level, for example, spreads have widened in the dollar's favour from 90 basis points in mid-February to around 180 basis points now. Mr Rosenberg said be was "rather surprised how meek its response has been." Over that period the dollar bas not risen

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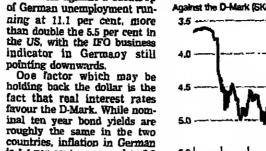
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by more than two plennigs. It Swedish Krona also comes against a backdrop



per cent in the US. Another factor could be the position of the market - inves-tors remain overweight the dollar, although Mr Roseoberg says there has been evidence in receot days of mutual funds

is 1.4 per cent, compared to 2.7

Mr Jim O'Neill, chief currency economist at Goldman Sachs in New York is another who is bullish about the dollar. Three years ago, assessing a range of variables - PPP, G7, current account, growth, interAgainst the D-Mark (SKr per DM)



Source: FT Extel est rate expectations, short and

loog term real rates, fx reserve diversification, US portfolio outflows, budget deficits, mar-ket position and charts - he found teo of them to be oegative for the dollar, and only one positive. This time round, he finds roughly seven of these factors to be dollar positive. with four negative (and only one of these strongly so).

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account, relative growth prospects, interest rate expectations, real short rates and the chart position as being strongly dollar positive. He believes the current account position to be "probably the best in at least a decade".

■ Although the dollar remains largely range-bound against the D-Mark, Mr Rosenberg maintains that over the last six months it has been in a "gradual, but oevertheless clear uptrend.

A related, but more clear trend is the weakness of the D-Mark, which is more evident against various European currencies than against the dollar. This can be seen in the recent strength of currencies like the Freoch franc, Italian lira, Swedish krona and sterling. Mr Rosenberg said traders and investors appeared more confideot to sbort the D-Mark against these currencies than against the dollar.

₩ While the main currencies are convulsed by inactivity, some analysts believe the focus over the next 3-6 mooths could be with other dollar bloc currencies such as the New Zealand, Australian and Canadian dollars.

Mr Rosenberg is particularly enthusiastic about the Canadian dollar. He describes it as a "undervalued asset with great fundamentals". On a purchasing power parity basis, he says it is the most undervalued currency they track, while real long term rates are the hi Finland and Sweden. The rent account balanc improving rapidly, and

May 23

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BANQUE NATIONALE DE PARIS Programme for the Issuance of Debt Instruments Series No 37 Tranche 1 YEN 1,000,000,000

AUD Currency Linked Euro Yen Notes due September 2005

Notice is hereby given that the rate of interest for the period from 21 March 1996 to 21 September 1995 has been fixed at 5.188389 per cent per annum. The coupon amount due for this period is YEN 2,594,195 per denomination of YEN 100,000,000 and is payable on the interest payment date 24 September 1996. The Fiscal Agent

RNP (Luxembourg) S.A.

JPMorgan

CITICORP • US \$250,000,000

Floating Rate Notes Due September 2000

Notice is hereby given that the Rate of Interest for the interest period March 21, 1996 to June 21, 1996 has been fixed at 5.5875% and that the interest

1.9838 1.9779 11.8918 11.8497 54,5610 53.7460 +0.0318 745 - 822 +0.2995 800 - 564 +0.021 505 - 578 +0.839 645 - 823 4.7587 4.7327 136.2 CROSS RATES AND DERIVATIVES **EXCHANGE CROSS RATES** 18.80 16.66
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rate for period Feb 1, 1996 to Feb 29, 1996, Schemes IV & V 8,288pc. Firence House Steen Rate & Sport S THREE MONTH STERLING FUTURES (LIFFE) 2500,000 points of 100% E PHILADELPHIA SE C/S OPTIONS C31,250 (cents per pound) Est. vol. Open int. Strike Price 1.500 1.510 1.520 1.530 1.540 1.550 511\$7 75887 57472 +0.01 +0.02 +0.04 -0.04 +0.04 93.87 93.92 93.69 93.37 26187 18370 Jun 0.07 0.30 0.42 0.60 +0.08 +0.14 +0.15 94.59 84.47 94.25 94.49 94.29 94.03

- 998 - 999 +0.002 888 - 890 +0.0004 596 - 601 +0.0085 120 - 320 0.9890 0.9872 1.3602 1.3588 7.5320 7.5120 NOTICE TO HOLDERS OF EUROPEAN DEPOSITARY RECEIPTS BERKELEY FUTURES LIMITED 38 DOVER STREET, LONDON WIX 3RB TEL: 0171 629 US8 PAX: 0171 495 0022 NIPPON SHINPAN & CO., LTD NOTICE IS HEREBY GIVEN that a cash dividend will be paid to shareholders of record date. March 31. 1996. Furthermore, it has been teclared that the shares will be traded ex-dividend on the Japanese Stock Exchanges with effect from March 25, 1996. Subject to approval of the dividend, a luthar hotics will be published, after receipt of the dividend by the Depositary, stating the amount and actual due of payment of such dividend together with the procedure to be followed for obtaining payment.

payable on the relevant interest Payment Date June 21, 1996 against Coupon No. 4 will be US\$71.40 in respect of US\$5,000 nominal of the Notes, and US\$1,427.92 in respect of US\$100,000 of the notes.

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LONDON SHARE SERVICE HEALTH CARE - Cont. 2.44.1511215167127-19.5227-19 1411日日第七日14日日日記記 九十五日日 467 579 117 4294 472 350 7481 164 633 7084 102 521 13 579 1467 405 405 406 709 ්ස් වන්දේ සිට මා වන්දේ සිට මා වා වා වා වන්දේ සිට මා වන්දේ මෙස් මෙස් සිට මෙස් සිට මෙස් සිට මා වන්දේ සිට මෙස් සිට මෙ Caroting (W) . A Bar Caroting **HOUSEHOLD GOODS** 20 m 48.7 117.0 44.0 118.0 418.0 118 情感的现在分词 "我们是我们的知识,我们是我们的我们的"我们是我们的我们的我们的我们们是我们是我们的我们是我们是我们是我们是我们是我们的我们是我们是我们的我们是我们是我们是我们是我们是我们是我们是我们 ENGINEERING 65-46 - 65-46 関係は1477以下の1912を開始して1919を行うしています。 1917年の1917日の1912を開始して1919を行うしています。 1917年の1917日の1912を開始して1919を行うしています。 1917年の19 的。 1917年,1918年,1918年,1918年,1918年,1918年,1918年,1918年,1918年,1918年,1918年,1918年,1918年,1918年,1918年,1918年,1918年,1918年,19 ARI Less
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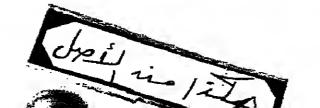
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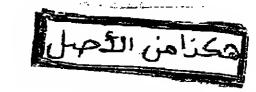
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LONDON STOCK EXCHANGE

MARKET REPORT

Mid 250 outpaces the leaders and hits new peak

UK Stock Market Editor

out the session.

Hopes that London's stock market would take a strong run at 3,700 on the FT-SE 100 scale were dashed by a combination of factors yesterday. with share prices of the UK's top stocks looking vulnerable through

Second liners, on the other hand, maintained their outperformanca against the market leaders, with the FT-SE Mid 250 index hitting a new

A disappointing overnight showing by Wall Street, German money supply figures every bit as bad as the pessimists had warned, and a of trading yesterday kept UK shares on the down slope.

The performance was made to look all the more pedestrian after the gilts market staged a rapid and determined rally to close almost a full point ahead on the day, after falling around a quarter of a point during early trading.

There were no really big shocks from the day's company news items contributing to the poor performance; on the contrary, there were number of extremely bullisb results, especially from the secondline stocks.

Telecoms stocks, admittedly, were among the FT-SE 100's poorest per-

steep fall on Wall Street at the start formers, with Vodafone and BT down 3 per cent and 2 per cent respectively and heading the downside list after the latest consultative document from Oftel, the telecoms industry watchdog. Dealers said the report contained nothing too damaging, but that the market was always liable to take a dim view of any move to limit profits growth at one of the UK's biggest companies. At the close of the session the FT-SE 100 index displayed a 7.6 decline at 3,685.4. Undermining con-

fidence in the top stocks, traders

said, was evidence that several

large lines of stock were being

offered around, including a block of

5m Royal Bank of Scotland shares.

The big winners behind the FT-SE Mid 250's move to a new peak included Weir Group, the engineering company, Dorling Kindersley. the publishing group, Wassall, the conglomerate, and Hammerson, the property group.

Wall Street's disappointing close overnight - the Dow Jones Industrial Average settled 14 points down on balance after crossing the 5,700 level at one point - and worries about the day's scheduled economic data saw the FT-SE 100 open some seven points lower. At its worst, minutes after the opening, the index was down almost 20 points. But the good corporate results, plus encouraging domestic eco-

nomic details, on retail sales and M4 money supply for February, triggered a modest uptick which drove the FT-SE 100 into positive ground in the early afternoon and belped to sustain the FT-SE Mid 250.

The weak start by Wall Street. which fell more than 40 points shortly after the opening, came in the wake of a profits warning from

computer group Digital Equipment. Turnover of 703.Im shares was described as disappointing by traders, with non-FT-SE 100 stocks accounting for 55 per cent of the total. Customer business on Tuesday, boosted by the big switch operation out of gilts and into equities, was a beffy £2.2bn.



FUTURES AND OPTIONS

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FT-SE 100 INDEX PUTURES (LIFFE) \$25 per full index point

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FT-SE MID 250 INDEX PUTURES (LIFFE) \$10 per full index point

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ICI tops **US** buy list

Growing US pressure to shift away from defensive stocks and into cyclicals was reflected by the diverging prices of ICI

and leading pharmaceuticals. ICI improved 14 to 942p. while Zeneca slipped 19 to 1343p as one US brokerage was said to have failed to place all of a line of 3m ahares.

Zeneca bas been seen as a prime target for Roche, of Switzerland. Yesterday. Rocbe's pharmaceuticals division director Mr Franz Humer said the company would make further acquisitions but only if they

tied in with current strategy.
In a newspaper interview, Mr Humer said Roche's objective was to win worldwide pharmaceutical market share of between 3.5 and 5 per cent over the next five to eight years, but added: "With the new products in our pipeline, we are absolutely in the position to achieve this on our own strength."

Telecoms hit

The latest consultative document on pricing from telecoms regulator Oftel cast a cloud over the sector, with BT, most cables groups and Vodafone all moving lower.
Vodafone was hit hardest,

although Oftel referred fairly obliquely to the mobile phone industry and had no immediate intention of bringing mobiles into its price net. Vodafone

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FORUM IN 1996

closed 71/2 off at 2441/2p in 17m traded, the day's worst performing Footsie stock.

BT retreated 71/2 to 3441/ap. Most brokers are convinced that Oftel is determined to lower BT's earnings profile. NatWest Securities, which stood by its hold stance on the sbares, bas grave doubts about Oftel's pricing proposals on

BT's operating cashflow. One analyst with a leading broker said: "The regulatory pressure is intact. BT needs a way out. It may do a deal with Cable and Wireless or possibly move towards a break-up."

Cabio and Wireless, underpinned by takeover speculation and the fact that UK unit Mercury accounts for just 20 per cent of total profits, stood out against the sell-off, adding

Allied/Bass hints

Spirits group Allied Domecq was one of the day's talking points following a press report suggesting that Bass is negotiating to buy Allied's 50 per cent stake in Carlsberg-Tetley, the brewing joint venture with Carlsberg.

Neither company would be drawn on the reports and both said they did not comment on market rumours. The market was nevertheless cheered by the talk and shares in Allied moved ahead 6 to end at 4970 after trade of 4.7m. Bass also gained 6 to close at 749p, with US investment bank Goldman Sachs said to be recommending the shares.

One cautious market watcher said: "This talk is in fact not new and both Bass and Whitbread are said to have shown an interest in making

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such a purchase, though I doubt an announcement is round the corner. Today's share price rise is simply of the press report. Shares in Whitbread receded 9

In the rest of the drinks sector, Guinness, which reports figures today, was one of the day's strongest performers in the FT-SE 100 index. The stock brushed aside recent worries about the figures and bounced 9 to 472p. Volume was 2.5m

Vague stake building talk was beard in Young & Co's Brewery. The "A" shares put on 27 at 513p.

Banks were broadly weaker as a soggy market gavo an opportunity for profit-taking. However, National Westminster added 4 at 638p on expecta-tion that acquisition of Clerical Medical, the mutual life assurer, is imminent.

	Mar 20	Mar 19	Mar 18	Mar 15	Mar 14	Yr ego	"High	'Low
Ordinary Share	2756.4	2759.0	2743.8	2731.4	2758.2	2394.0	2807.9	2238.3
Ord. div. yield	3.94	3,94	3.96	3,97	292	4.42	4.73	3.75
P/E ratio net	16.32	16.31	16.49	16,43	18.81	15.63	21.33	15.35
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52 Week highs and lows

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DECISION MAKERS

Scotland slipped 8 to 537p, with per cent over tha past four pressure from a line of 5m sbares that one broker was

said to be hawking around the market. However, dealers said takeover speculation was bubbling around the stock again and some expected the shares to bounce once the big block of

shares was sold. HSBC and Standard Chartered fell 15 to 990p and 10 to 602p respectively following a slide in the Hong Kong market. Oil major BP came back from its Olympian heights as

Morgan Stanley, the US brokerage, decided that it bad gone too far too fast. Morgan still likes the stock but has lowered its recommen-

dation to "outperform" from "strong buy". The move brought to a brief halt a rise that had taken the share price to a record closing peak and caused it to outperform the Elsewhere. Royal Bank of FT-SE All-Share index by 15

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June 19, 1996
Coupon nr: 23
Amount: FRF 108,01 for the denomination of FRF 10 000 FRF 1 090,10 for the denomination of FRF 100 000

THE PRINCIPAL PAYING

0.87813% March 19, 1996 June 19, 1996

Interest Rate

Interest Period

FINANCIAL TIMES EQUITY INDICES

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Ordinary Share	2756.4	2759.0	2743.8	2731.4	2758.2	2394.0	2807.9	2238.3
Ord. div. yield	3.94	3,94	3.96	3,97	a92	4.42	4.73	3.75
P/E ratio net	16.32	16.31	16.49	16,43	18.81	15.63	21.33	15.35
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Equity turnove Equity bargain Shares traded	8Ť	:	2211.0 43,595 731.8	2 420	770 3	704.2 9,335 96.2	2400.9 42,182 779,4	1598.4 45,555 653.2
tExcluding Intra-			_		Mar 14	Yr son	7-figh	Low
FY-SE AIM For 1895/50.					988.33		- 1054,62	

LIFFE Emily ontion

Yesterday, the shares shrugged off a firmer crude oil price to slip 91/2 to 565p, while Shell Transport lost 4 at 857p. Tobacco and insurance con-

glomarate BAT Industries showed tentative signs of recovery following the US inspired pounding over the past few days.
The shares had tumbled

more than 10 per cent since Liggett, the US tobacco group which makes Chesterfield cigarettes, stated that it was offering an out of court settlement to the anti-tobacco lobby.

Since the Liggett move started to leak into the market a week ago, nearly 3 per cent of the BAT equity has changed hands. Yesterday the stock hit a low of 481p after a near \$5 fall by Philip Morris on Tuesday. However, BAT shares rallied to close the day a penny up at 488p.

But views on the stock remain polarised. NatWest Securities issued a sell note yesterday, advising clients to take profits ahead of forecast steep declines in earnings over the next two years.

Elsewhere, engineering analysts were quick to upgrade profits estimates at Weir Group following strong interim figures. The shares powered ahead by almost 10 per cent to top the FT-SE Mid 250 performance charts, closing 23 higher at a new peak of 258p. A combination of improved

retail sales figures and what was said to be a bit of a market squeeze gave airports group BAA a clear push. The shares, up 9 at 538p, jumped to fourth place in the Footsie rankings. Wassall, buoyed by bumper results, moved ahead strongly

in spite of a move by rival conglomerate Hanson to sell its stake in the group.

Wassall topped the FT-SE
Mid 250 performance charts Govett handled the Hanson disposal of 4.3m shares. These changed hands at 276p and

277p. SBC Warburg upgraded its Wassall profits estimates for the current year by 5 per cent to £63m. But the broker downgraded at Harrisons & Crosfield, cutting back by £4m to £128m for this year. H&C was cautious about building supplies trading, and the shares

closed 4 off at 167p.
Yorksbire Electricity Yorksbire Electricity sparked up 11 to 814p with help from a bny recommendation published by Yamaichi.

Dorling Kindersley, which rose sharply on well received figures on Tuesday, jumped a further 29 to 545p after tha company announced a co-operation agreement with

Intel Corporation. On Demand, a USM-quoted Internet-related stock, forged ahead 21 to 218p on news of a joint product launch with Netscape, the sector's US star per-

Peter John, Joel Kibazo,

price	Ant	MAG.	10	96		Close		Net	Div.	Ga	P/E
P	up	(Janua)	High	Low	Stock	p	₩-	dv.	COV.		net
	F.P.	51.6	527	498	BZN Eq (Brinds)	516	-5	•	-		
-	F.P.	1.56	2	2	Capital & Wetm	2		-	-	-	
-	F.P.	D.D7	512	3	Clubbases With	3		. •	-	-	
12	F.P.	55.0	1632	14	Treepages	15		-	-	-	
-	F.P.	31.8	143	100	HOC IN	130	-1	-	-	-	٠.
100	P.P.	22.8	53	25	Life Offices	5212	43	-	-	-	
-	F.P.	57.3	2412	20	M & G Ecoulty Carp	2212	-		-	-	
-	F.P.	5.17	82	88	M & G Enedy Day	90		-	-	-	
	F.P.	86.8	45	42	M & G Equity Inc	4312			-	-	
145	F.P.	110.7	169	145	Macdonald Hotels	189	+3	FMMA.D	23	2.6	501
100	F.P.	16.8	105	103	†Printy Hith Props	105	+2		-	-	
-	F.P.	24.2	98	87	Serricen Value C	97		-	-	-	
-	F.P.	204.4	25512	241	Schroder LIK G Uss	25512	+6		-	•	
120	F.P.	38.6	141	123	Stactuch Group	140	+1	1308	3.1	3.4	11.7
180	F.P.	106.5	188	175	Streamfine	175		VN-7.7	1.1	5.5	13.

FT GOLD MINES INDEX												
	10	% day	Mar 18	Year	Gross the yield %	P/E ratio	52 v	law				
Gold Mines Index (33) at Regional Indices	2/37.28	+0.3	2230.17	1867.51	1.48	-	2520.73	1722.5				
Atrice (18)	3060,68	~0.6	3077.373	2689,25	2.76	38.07	3553.85	22723				
Australiania (S)	2565,45	+0.8	2574.37	2176.99	2.44	38.80	2927,34	1986.8				
North America (12)	1950.47	+0.7	1937.56	1569.94	0.59	58.01	2186.39	1485.9				

with a rise of 10 to 287p in 10m turnover. ABN Amro Hoare IFT - SE Actuaries Share Indices 14.58 38.63 1488.68 20.90 41.95 1703.56 18.69 44.55 1710.01 15.60 19.13 1531.73 12.81 21.75 1244.12 19.59 18.62 1311.20 22.81 8.86 1589.42 FT-SE 100 FT-SE Mid 250 FT-SE Mid 250 ex hw Tru FT-SE-A 350 ex hw Tru FT-SE-A 350 Higher Yield FT-SE-A 350 Lower Yield -0.2 3893.0 3698.6 3644.8 3138.7 +0.2 4274.2 4244.5 4227.2 3407.0 +0.2 4305.6 4275.9 458.4 2414.5 -0.1 1856.2 1844.2 1832.8 1536.2 -0.1 1814.5 1802.2 7733.3 1599.3 +0.1 1905.5 1693.8 1877.7 1543.1 +0.1 2078.20 2077.3 2088.92 1895.77 4.02 3.46 3.57 3.90 5.12 2.78 3.08 2.13 1.73 1.78 2.06 1.97 2.31 1.79

						3.DB	1,79	ZZ81	8.96	1089.42
2067.5	3 +0.1	2065.6	2 2057.31	2054.16	1573.96	3.26	1,88	20,45	8.60	1687.76
1833,4	- 0.1	1835.3	6 1623.71	1813.18	1535.21	3.83	2.04	15.89	18.06	1538.40
II-Share										
	Day's				Year	Div.	Net	P/E	Xd ad	Total
Mer 20	chge%	Mar 1	9 May 18	Mar 15	BGO	yield%	DOME	ratio	ytd	Return
3357.27	7 _O.B	33R5 1	2 3331 RS	3302 67	2695 D2	3.97	1 77	19.65	22 58	1422.50
										1238.40
										1470.66
	-									1420.89
										933.35
										933,45
										1217.66
										990.69
										1215.01
							2.40	16.36		1440.41
							1,80			
						3.71	1.85	17.29	12,80	1128.97
1474,96	-0.2	1478.4	4 1477,48	1476,71	1433.62	4.76	1.64	12.04	7.42	889.D4
3452.29	3	3452.4	1 3452 10	3455,14	2947.79	4.05	1.87		200	1271.13
										999.65
										1144.61
										974.41
										1160.75
										1630.11
		_					2.03	<u>P.98</u>	156.18	1037.31
						2.65	2.09	20.21	17.11	1223.18
						3.77	1.85			B\$5.79
						2.80	2.15			
						2.21	2.06			1413.23
						3.83	2.40			1198.00
1959,88	-0.1	1961,4	8 1954.08	1945.81	1605.04	3.04	2.21			1108.18
						3.33	2.08			1415.51
2127.53	+0.6	2115,8	1 2093.55	2085.77	1458.63	2.29	2.53			1341,44
2392.77	-0.3	2399.8	9 2589.91	2362.89	2211,44	3.62	1.41			995.53
2444 %	-04	2453.8	9 244B 14	2424 RO	2274 81	5.07				
										1037.33
										769.37
										908.26
									_	1172.85
						3.83	1.94	16.80	17.96	1470.80
						4.18	2.57	11.64	39.82	1205.16
3899.35	-0.8	3922.27	7 3874.08	3781.67	2932,47	3.97				1271.25
	+1.0					2.82	2.38			1098.54
						5.87	3.07			1033,12
	-0.4	3555.11	B 5530,44	3522.71	2539,68	4.18	2.10			1443.01
2507.95						3,68	1.88			1417.28
1451,21										882.58
3094.45						_				
										1074.97
		_							-	1538.40
								19,41	5.48	1208.99
1100.00	10.2	1012	1 1104,02	1128.61	M47,08	3.20	2.37	16.52	5.87	1218.44
9.00 10.0	0 11.	00	12.00	13.00	14.00	15.00	16.1	O Hig	h/dey	Low/day
	2087.83.44 II-Share Mer 20 3357.27 2383.84 2383.84 2383.84 2383.84 2383.85 2753.26 2753.27 2753.34 2753.27 2753.27 2753.34	2087.83 +0.1 1833.48 -0.1 1833.48 -0.1 1833.48 -0.1 1833.48 -0.1 1833.47 -0.8 2367.27 -0.8 2362.41 -1.1 2363.83 +0.3 2055.59 +0.2 1130.41 -0.2 2588.25 -0.5 1796.40 -0.2 2588.25 +0.5 2588.25 +0.8 2739.26 -0.2 2447.96 -0.2 2458.39 +0.1 259.39 +0.1	2087.63	2087.63 +0.1 2085.62 2057.3* 1633.48 -0.1 1836.36 1623.71 1835.26 Dey's Mar 23 chyels Mar 19 Mar 16 3357.27 -0.8 3385.12 3331.85 4322.00 +0.1 4228.39 4188.48 3322.41 -1.1 3430.91 3388.62 2393.83 +0.3 2337.7 2372.77 2393.83 +0.3 2337.7 2372.77 2393.83 +0.2 2092.15 2082.55 1130.41 1230.44 1129.45 11890.25 -0.1 1883.02 1875.42 2598.25 +0.5 2574.49 2554.31 1796.40 -0.2 1801.30 1807.16 2598.49 +0.1 2357.22 2347.35 2398.40 +0.8 2361.92 2362.18 2695.59 +0.8 2513.93 2774.52 2779.24 +0.2 2745.22 2712.74 1474.96 -0.2 1476.44 1477.46 3482.28	2067.63 +0.1 2065.62 2057.31 2054.16 1833.49 -0.1 1835.36 1623.79 1813.16 Dey's Mer 20 chge% May 19 May 18 May 15 3357.27 -0.8 3385.12 3331.89 3302.67 422.00 +0.1 4228.39 4188.46 4156.65 3332.41 -1.1 3430.91 3398.02 3337.71 2363.63 +0.3 2357.37 2372.62 2353.77 2363.63 +0.3 2357.37 2372.6 2353.62 2055.59 +0.2 2052.15 2052.59 2076.85 1130.41 -1130.44 1129.45 1131.71 1880.25 -0.1 1883.02 1875.45 1863.24 2588.40 +0.1 2357.22 2345.23 1798.40 -0.2 1801.30 1807.16 1798.34 2388.40 +0.1 2357.22 2345.23 2388.40 +0.1 2357.22 2345.23 2388.40 +0.1 2357.22 2345.23 2388.40 +0.1 2357.22 2345.23 2388.40 +0.1 2357.22 2345.23 2388.40 +0.1 2357.22 2345.23 2388.40 +0.1 2357.22 2345.23 2388.40 +0.1 2357.22 2345.23 2388.40 +0.1 2357.22 2345.23 2389.30 +0.1 2550.84 2540.56 2535.21 2474.96 -0.2 1478.44 1477.46 1476.71 3482.28 -3452.41 3452.10 3455.14 2798.94 +0.8 2777.72 5570.14 2546.28 2798.94 +0.8 2570.72 2550.14 2546.89 1926.24 +0.3 1922.73 1918.91 1915.90 1926.24 +0.3 1922.73 1918.91 1915.90 -0.1 1831.81 2893.55 4840.13 4129.55 +0.1 4125.32 4129.56 4235.44 2389.30 +0.1 2366.88 2351.11 2342.28 2389.30 +0.1 2366.88 2351.11 2342.28 2398.40 +0.3 2675.88 2897.77 2963.55 1910.25 +0.4 1902.66 1876.23 1872.76 1969.88 -0.1 1951.81 2693.55 2085.77 2382.77 -0.3 2293.89 2389.91 2389.89 2444.92 -0.4 2453.88 2448.14 2424.89 2782.60 +0.2 2777.44 2685.36 2670.44 1533.49 -0.6 1542.72 1586.07 1536.07 2065.50 -1.2 2061.45 2263.08 2004.97 2162.76 -0.3 2622.77 2782.35 2745.45 2389.35 -0.8 3922.27 2782.35 2745.45 2389.37 -0.8 3922.27 2782.35 2745.45 2389.37 -0.8 3922.27 2782.35 2745.45 2389.37 -0.8 3922.27 2782.35 2745.45 2444.92 -0.4 2453.88 2448.14 2424.89 2782.60 +0.1 2054.34 254.89 2782.60 +0.1 2054.34 254.89 2782.60 +0.1 2054.34 254.89 2782.60 +0.1 2054.34 254.89 2782.60 +0.1 2054.34 254.89 2782.60 +0.1 2054.34 254.89 2782.60 +0.1 2054.34 254.89 2782.60 +0.1 2054.34 254.89 2782.60 +0.1 2054.34 254.89 2782.60 +0.1 2054.34 254.89 2782.60 +0.1 2054.34 254.89 2782.60 +0.1 2054.34 254.89 2782.60 +0.1 2054.34 254.89 2782.60 +0.1 2054.34 254.89 2782.60 +	2087.63 +0.1 2085.62 2087.31 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4789.29 -0.5 4823.50 4835.85 4840.13 3742.80 4129.55 +0.1 4125.22 4129.55 4335.44 3679.71 2389.30 +0.1 2356.88 2351.11 2342.28 1909.38 2616.47 -0.3 2525.43 2518.84 2503.23 2279.85 2904.96 +0.3 2975.56 2287.77 2963.55 210.97 3202.5 +0.1 4125.22 4128.55 4335.44 3679.71 2908.30 +0.1 2965.86 2851.11 2342.28 1909.38 2616.47 -0.3 2525.43 2518.84 2503.23 2279.85 2904.96 +0.3 2975.56 2287.77 2963.55 210.97 3202.5 +0.1 3975.86 2897.74 3885.45 2808.88 1910.25 +0.4 1902.86 1876.23 1872.76 1877.91 1969.86 -0.1 1961.48 1954.08 1945.81 1605.04 2908.37 +0.3 2595.59 2595.77 1958.28 270.97 3200.5 +0.1 2975.55 2287.77 1362.82 2718.81 1908.25 +0.1 3975.82 2718.81 1908.82 2718.81 2908.95 +0.1 2975.55 2287.77 2963.55 210.97 3200.5 +0.1 2975.55 2287.77 1362.82 2718.85 2908.96 +0.3 2975.55 2287.77 1362.82 2718.81 1908.25 +0.1 1908.25 2718.81 1908.82 2718.81 1908.26 +0.1 1908.26 1876.23 1872.76 1877.76 2908.95 +0.1 2277.95 1878.92 2718.81 290	2087.63 +0.1 2085.62 2057.31 2084.16 1673.96 328 1633.48 -0.1 1836.36 1623.79 1813.18 1835.21 3.53 1833.48 **Dey's	1833,48	1883.48	2067.63

Notice to the Warrantholders of PARAMOUNT BED CO., LTD. (the "Company")

Bearer warrants to subscribe for shares of common stock of the Company Issued with U.S.\$100,000,000 23/4 per cent. Bonds due 1999

"Adjustment of Subscription Price"

Notice is hereby given that the Company has resolved at the meeting of the Board of Directors held on 7th November, 1995 to split the shares (the "Stock Split") owned by the

shareholders appearing on the register of shareholders of the Company as at 15 hours on 31st March, 1998 (Japan time) at the rate of one point one (1.1) shares to one (1) share held by them, provided, however, that the fractions of a full share occurring upon such stock split shall be sold as a wholo and the proceeds of the sale shall be distributed to the shareholders entitled thereto in proportion to their fractional interests, and as a result of such atock split the subscription price for the captioned warrants shall be adjusted as

 Subscription price before adjustment: Yen 7,893.00 per share
 Subscription price after adjustment: Yen 7,175.50 per share
 Effective date of the adjustment: 1at April, 1996 (Japan time) PARAMAOUNT BED CO., LTD.

145, Higashisuna 2-chome, Koto-ku, Tokyo Japan by: The Fuji Bank and Trust Company

Compagnie Bancaire

For the period from March 19, 1996 to June 18, 1996, the Notes will carry an interest rate of 4,385% per annum with an interest amount of FRF 10,27 per FRF 10,020 Note and of FRF 1,162,14 per FRF 100,000 Note. nt interest payment date will

BANQUE PARIBAS



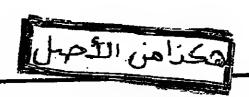
	Орел	9.00	19,00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	3585.6	3853.9	3681.1		-3687.8		3667.2	3593.4	3688.6	3884.2	3674.0
FT-SE Mid 250	4274.1	4272.9	4274,9	4278.3	4250.0	4280.0	4281.3	4282.6		4283.0	4272.6
FT-SE-A 360	1853.3	. 1851.3	1851.6	1854.7	1654.8	1852.6	1854,6	1857.2	1855.2	1857.4	1848.6

ctuario	es 350) Indu	stry b	asket							
Open	9.00	10.00	T1.50	12.00	13,00	14.00	15.00	16.10	Close	Previous	Change
											+0.3
											-24 <i>,</i> 4
											+0.5
	Open 1128.6 4747.4 2157.1	Open 9.90 1128.6 1120.7 4747.4 4728.3 2157.1 2157.3	Open 9.90 10.00 1128.6 1120.7 1118.8 4747.4 4728.3 4740.0 2157.1 2157.3 2150.4	Open 9.00 10.00 f1.00 1128.6 1120.7 1118.9 1122.7 4747.4 4728.3 4740.0 4758.4 2157.1 2157.3 2158.4 2157.9	Open 9.00 10.00 71.00 12.00 1128.6 1120.7 1118.8 1122.7 1122.9 4747.4 4728.3 4740.8 4750.8 4750.8 2157.1 2157.3 2158.4 2157.9 2158.8	1128.6 1120.7 1118.8 1122.7 1122.9 1122.6 4747.4 4728.3 4740.0 4758.4 4750.8 4739.1 2157.1 2157.3 2158.4 2157.9 2158.6 2154.5	Open 9.00 10.00 71.60 12.00 13.00 14.60 1128.6 1120.7 1118.9 1122.7 1122.9 1122.5 1122.1 4747.4 4728.3 4740.6 4788.4 4750.8 4789.1 4737.1 2157.1 2157.3 2158.4 2157.9 2158.6 2154.5 2154.9	Open 9.06 10.00 71.00 12.00 13.00 14.00 16.00 1128.6 1120.7 1118.9 1122.7 1122.9 1122.5 1122.1 1121.4 4747.4 4728.3 4740.0 4750.8 4750.8 4739.1 4737.1 4753.5 2157.1 2157.3 2158.4 2157.9 2158.6 2154.5 2154.9 2152.2	Open 9.00 10.00 71.50 12.00 13.00 14.60 16.00 16.10 1128.6 1120.7 1118.9 1122.7 1122.9 1122.5 1122.1 1121.4 1122.4 4747.4 4728.3 4740.2 4758.4 4750.8 4739.1 4737.1 4753.5 4749.1 2157.1 2157.3 2158.4 2157.9 2158.6 2154.5 2154.9 2152.2 2165.3	Open 9.06 10.00 71.00 12.00 13.00 14.00 16.00 16.10 Close 1128.6 1120.7 1118.9 1122.7 1122.9 1122.5 1122.1 1121.4 1122.4 1122.7 4747.4 4728.3 4740.0 4750.8 4750.8 4737.1 4753.5 4748.1 4744.8 2157.1 2157.3 2158.4 2157.9 2158.6 2154.5 2154.9 2152.2 2155.3 2155.8	Open 9.00 10.00 11.00 12.00 13.00 14.00 16.00 16.10 Close Previous

Addressed in internation on the FT-SE Actuaries Share indices is published in acturally issued.
The FT-SE Actuaries Share indices are calculated by FT-SE international Limited in conjunction with the Faculty institute of Actuaries.
O FT-SE international Limited 1995. All Fights reserved. The FT-SE Actuaries Share indices accordance with a standard set of ground rules established by FT-SE international Limited in conjunction with the and the institute of Actuaries.
FT-SE and foreign trademarks that trademarks of the London Stock Exchange and the Fine and are used by FT-SE international Limited under Scorce. Auditor: The WM Company." † Sector P/E ratios great attense Limited in conjunction with the Faculty of Accurate andon Stack Exchange and the Financial Times Limited

EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) \$10 per full inde Age 100¹/₂ 11¹/₂ 11¹/₂ 11¹/₂ 12¹/₃ May 183 20¹/₂ 145 40 110 1 May 183 20¹/₂ 145 40 110 1 May 20¹/₂ 24 170 81¹/₂ 128¹/₂ 2 179 10 Dect 290¹/₂ 71¹/₂ 179 10 Dect 290¹/₂ 97¹/₂ 233 1 Calls SSA 1945 1,490 * Undertying Indics 1 † Lang detect expiry months. 305/5 305/5 305/5 37/5 37/5 3828 1804_1112 118 1812 82 322 52 52 38 80 152 115 7 156 183 2012 145 40 110 55 8012 7412 8512 99 3612 115 71 164 2005/2 48 170 6112 12812 7712 103 03 7412 114 5112 140 3712 175 2485_2 7412 179 10512 12212 146 8412 205 2485_2 7412 178 1813 180 175 13012 224 TRADING VOLUME MARKET REPORTERS:

17,800 8,800 7,160 4,200 2,000 961 1,900 16,000 2,800 15,800 15,800 2,800 2,800 2,800 2,800 2,800 2,700 4,900 2,700 4,900 2,700 4,900 2,700 4,900



FINANCIAL TIMES TH	IURSDAY MARCH 21 1996	*	STOCK MARKET	rs			
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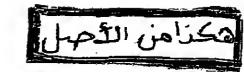
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hits technology sector

Wall Street

A profits warning from Digital Equipment, the US computer group, sent technology shares sharply lower in midday trading, pulling other sectors down as well, urites Lisa Bransten in New York.

At 1 pm, the Nasdag composite was off 11.74 at 1,100.76 and the Pacific Stock Exchange technology index, which con-tains shares traded on the Nasdaq and the New York Stock Exchange, slid 2.3 per cent. The Dow Jones Industrial

Average opened stronger but by I pm blue chip shares were off 35.41 at 5,634.10. The Standard & Poor's 500 fell 4.21 to 647.48, while the American Stock Exchaoge composite added 0.21 at 564.78. NYSE vol-

ume was 240m shares. Before trading began, Digital warned that weak third quarter sales of personal computers would cause its quarterly earniogs to be below analyets' expectations, although higher than earnings in the same period of last year. By midday the shares were off \$10% or 16

per cent to \$5614. The had news spilled over to

Portuga

Tuzkev*

nology companies. IBM shed 86% to \$114%, Hewlett-Packard \$2% to \$37%. Dell Computers slid \$1% to \$31% and Gateway 2000 lost \$1% at \$26.

The two biggest companies on the Nasdaq also suffered from the fears about weakness in the technology sector. Microsoft dipped \$3 to \$103% and Intel \$3% to \$55%.

Cyclical shares were also weaker, having led the market through much of its recent rebound. Declining cyclical shares in the Dow included Du Pont, \$1%

cheaper at \$83, Aluminum Company of America, \$1% down at \$611/2, and Caterpillar. off \$114 at \$70%. Tohacco sbares recovered

some ground after the beating they had taken since the Liggett Group decided to settle some of the suits pending against all of the major producers. Philip Morris improved \$2% to \$89 and RJR Nabisco stood \$% better at \$30%.

Toronto turned back from a firm opening and the TSE 300 composite index was a net 4.75 down hy noon at 4,962,70 in

Analysts noted that oil and gas prices had continued to rise to levels unseen since the Gulf War on falling North American inventories, while metals were also the beneficiary of low inventories and high demand.

Biovail Corp International shares rose C\$2% to C\$39% but in quiet dealings. Agra Industries class B shares moved ahead C\$'A to C\$9% in brisk dealings after

the company posted a 79 per

cent rise in profits for the first half of fiscal 1996.

SOUTH AFRICA

Johanneshurg ended slightly weaker after drifting quietly all day, with gold stocks slip-ping on a softer bullion price and industrials easing on a lack of fresh incentives ahead of today's public holiday.

Analysts noted that a large nomber of gold shares left over in the market after Friday's futures close-out also cootriboted to the weaker

The overall index ended 12.2 lower at 6,633.6, industriala elipped 7.6 to 8,230.3 and golds declined 16.0 to 1.722.8.

Warning from Digital Continental airline stocks gain height

Airlines had seen individual signs of activity this week, but Lufthansa, KLM and Swissalr all gained height yesterday. Lufthansa rose DM5.50 to

DM234.40 for a two-day gain of DM8.40 ahead of today's 1995 preliminary results. It had to struggle with a strong D-Mark for most of last year, said Mr Guy Kekwick at Lehman Brothers, but it had indicated higher profits, oevertheless. KLM, like Luftbansa.

approached its 1995-96 high with a rise of FI 2 to FI 59. Analysts said that the rise was partly technical as the stock broke resistance at FL 57, and partly due to renewed talk by British Airways that it did not exclude European expansion. Swissair, which meets financial analysts in Zurich today, climbed SFr38 to SFr1,229, extending this week's rise to 9.9 per cent as the new chief operating officer Mr Philippe Bruggisser and senior management decided on further steps under an existing restructur-ing plan to cut 1,200 jobs in

Mr Frederick Hasslauer at Bank Sal Oppenheim in Zurich welcomed the management's readiness to take tough measures and, in additioo, its newfound ability to communicate with staff, raising hopes that change may be introduced without the risk of significant industrial disruption.

various parts of the group.

FRANKFURT fielded a February M3 growth rate of 126 per cent; analysts said that the Bundesbank would hesitate now before cutting interest rates in the short term.

Nevertheless, the Dax index rose on the day, by 6.99 to an Ibis-indicated 2,491.73 following a lower than expected US retail sales rise of 0.8 per cent in February: Allianz and Deutsche Bank were instrumental in the Dax rise, closing DM30 and DM1.23 higher at DM2,760 and

DM75.18 respectively. Chemicals stayed ont of the limelight. The metals and trading group Metallgesellschaft stuck to its "ambitious" profits target of DM300m for 1995/96 in spite of weakness in the German economy, and its shares rose 68 pigs to DM32.48. PARIS reflected earnings

news, published or pending, as the CAC-40 index rose 2.59 to 1,969.79 in light turnover of FFr3.56bn, Canal Plus, the television programme operator, jumped FFr56 or 5.2 per cent to FFr1,126 on a 6 per cent rise in net profits, well ahead of expectations, as well as on a rise in dividend from FFr15 to FFr20 a share.

One of its major shareholders. Havas, rose FFr8.30 to FFr409.50 in sympathy, hut another, Générale des Eaux, fell FFr4.60 to FFr495.10 after it said that a flotation of its mohile telecoms subsidiary, FT-SE Actuaries Share Indices 10,30 11,00 12,00 13,00 14,00 15,00 Close FT-SE Europrack 100 1608.28 1608.35 1607.51 1606.49 1606.78 1605.74 1607.85 1608.30 FT-SE Buroprack 200 1672.42 1674.02 1674.99 1674.97 1674.12 1674.78 1677.72 1677.90 Mer 18 Mer 18 1608.65 1678.03 1583.14 1831.94

Société Française de Radiotéléphonie, was "not imminent". Renault dropped FFr4.3 to FFr139.7 after Tuesday's 41 per cent plunge in 1995 group net profits. Elsewhere in the automotive sector, Michelin fell FFr3 to FFr231.50, Peugeot FFr11 to FFr776 and Valeo FFr430 to FFr261.50, the last

tries said it was not interested in a 28 per cent stake in the components group. Financials were mixed. Outside forecasts for Axa and Crédit Lyonnais left them up FFr3.30 at FFr304.30 and down FF17 at FF1208.10 respectively, while UAP fell FF13.80 to

mentioned after Lucas Indus-

FFr105.20 following a large sell order and stop-loss trades. AMSTERDAM was generally wary, but it found winners to join KLM as the Aer index

eased 0.21 to 527.22 Both the hrawer Heineken and the food group Nutricia moved to all-time highs, gaining Fl 4.60 at Fl 338.50 and Fl 3.20 at Fl 1.60 respectively in the aftermath of Heineksn's 1995 results. Meanwhile, a NIB outperform rating for Cap Volmac left the software group Fl 1.10 or 4.3 per cent higher at Fl 26.40.

STOCKHOLM turned back from the record highs registered on the previous two days as the strength of the crown hit major exporters.

Ironically, some analysts suggested that the overnight surge in the currency was largely due to foreign investors hedging their expected posi-tions ahead of Investor's listing of Scania .

The Affärsvärlden General index relinquished 7.2 at 1.919.8; Investor rose another SKr1 to SKr273. atteotion

ZURICH's remained focused on chemicals, with cyclicals mostly weaker, and the SMI index finshed 6.0 higher at 3,611.1. Sandoz registered put oo SFr13 at SFr1,340 and Ciba registered rose SFr11 to SFr1,430.

Roche certificates picked up

UBS bucked the mostly negative trend in financials, appreciating SFr21 to SFr1,332 in further rumour driven trade. One suggestion yesterday was that the bank wanted to build links

to Merrill Lynch.
MILAN edged ahead after a turnround in the domestic bond market, triggered by the weaker than expected US Feb. ruary sales.

The Comit index eased 2.88 to 591.14 but the real-time Mib. tel index picked up from a low of 9,393 to finish 4 higher at 9,461 as the market awaited preliminary inflation data from Trieste and Venice, due after the market closed.

SAL, the insurer, rose L886 to L15,871 on apeculation that Generali, up L139 to L36,280, might he considering a hid, Elsewhere among insurers, INI advanced L40 to L2,174 as it said that it expected gross profits for 1995 to rise hy around 50 per cent.

Telecom Italia gained L20 at L2,533 after it announced a cut in telephone charges for some international calls, to bring it more into line with other European markets.

Eni moved forward L50 to and at 1.5.953 after its Enichem chemicals division reported a return to profits in 1995.

Written and edited by William

Buenos Aires tepid on tax cuts

Buenos Aires gave a lukewarm reception to a index was 15.30 below the previous day's close tax cutting package which the economy minis-ter Mr Domingo Cavallo said would lower interest rates and help to pull the country out of recession. The Merval index at midsessioo was

3.06 points up at 500.04. MEXICO CITY edged higher in early trade before profit-taking eroded some of Tuesday's 4.5 per cent advance which followed the first drop in interest rates for seven weeks. The IPC

SAO PAULO was weak in midday trade as investors awaited the outcome of a wrangle between the presidency and congress over tha creation of an inquiry into the banking system. The Bovespa index had shed 554.92 to 47,960. The government was concerned that a block in establishing the committee could wreak

havoc upon its constitutional reform agenda.

989.33 130.79

EMERGING MARKETS: IFC WEEKLY INVESTABLE PRICE INDICES										
			Dollar terms		Local currency terms					
Market	No. of stocks	Mar, 15 1996	% Change over week	% Change on Dec '95	Mar. 15 1996	% Change over week	% Change on Dec '98			
Latin America	(248)	481.09	+1.7	+2.0						
Argentina	(31)	786.70	+0.2	-1.0	482,657,92	+0.2	-1.8			
Brazil	(68)	330.74	+2.2	+8.3	1,221,50	+2.5	+10.0			
Chile	(43)	693,58	+0.1	-7.\$	1,144,03	+0.2	-6.2			
Celombia ⁱ	(15)	569.62	-2.9	-4.8	1,055,52	-2.5	+0.8			
Mexico	(65)	470,19	+3.6	+3.8	1,532,71	+3.2	+1.8			
Peru:	(21)	202.77	+0.4	+2.8	291.74	+0.2	+5.0			
Venezuela ³	(5)	334.57	-0.8	+0,1	4,210.64	+7.8	+61.6			
Asia	(631)	249,12	B.0-	+7.3						
China	(23)	60.58	-3.6	+12.0	63.70	-3.5	+12.1			
Scuth Koreas	(145)	121.32	-0.1	-3.7	124.49	+0.3	-3.1			
Philippines	(35)	271,42	-2.9	+4,6	343.35	-2.8	+4,4			
Tanvan, China*	(83)	108.57	+3.0	-3.7	111.93	+2.8	-3.1			
India"	(76)	90.95	-1.6	+13.2	110.89	-0.8	+10.5			
Indonesia*	(44)	119.84	+0.7	+9.3	152.06	+1.2	+11.8			
Malaysia	(123)	303.98	-0.5	+12.1	285,03	-0.8	+12.2			
Pakistan"	(25)	272.92	-4.3	+12.5	429.03	-4.1	+15.8			
Sr Lanka¤	(5)	128.98	+3.4	+23.8	151.08	+3.4	+26.0			
Thadord	(72)	367.78	-3.3	-2.1	368.43	-3.2	-2.0			
Euro/Mid Enst	(238)	151.57	+0.2	+7.0						
Greece	(47)	262.33	+0.7	+8.6	429.82	+0.5	+11.1			
Hungary"	(8)	152,90	+3.3	+55.4	262,32	+3.4	+62.1			
Jordan	(8)	181,84	+0.1	-1.5	271.45	+0.1	-1.5			
Poland?	(22)	611.61	-4.7	+43.5	989.33	-4.8	+49.4			
M	10.00									

Indicas are calculated at 813 note, and weath changes are percentage interact from the previous Friday, Base date: Dec 1998-100 encapt those reads with any (1992-1 1992-1

Russlan equities have had admirers for a ling time, although foreign commitment to the market has seen a number of false dawns. Moreover, the market has been on the silde in recent weeks, falling by about 14 per cent since the start of the year in extremely low volume, writes Michael Morgan.

Bot now, says Mr John-Paul Smith at Morgan Stanley, while the Russian jigsaw is a long way from completion, the overall shape is at last becoming discernible. He believes that, at last, the risk-reward trade-off would seem to favour selective investment in Russian countries. Mr Smith identifies three factors inhibiting foreign investment in

that, at last, the risk-reward trade-off would seem to favour selective investment in Russian equities. Mr Smith identifies three factors inhibiting foreign investment in Russia. First, there is the risk of a Communist victory in June's general election, although, he says, must lovestors take a fairly sanguine view of this outcome. For the recard, Mr Smith still believes that Mr Boris Yeltsian has a better than even chance of remaioing president. Secondly, there is scepticism about whether arguments over ownership of companies, post privatisation, have been resolved. Mr Smith notes, however, that in the event of a Communist victory in the polls, any expropriations would be viewed in the harshest possible light by external investors and the IMF. The third worry is slow progress on the infrastructural front, but Mr Smith believes that settlement and custody are improving.

He argues that the timing for exposure to Russian equities is beginning to "feel" right. "All the psychological factors which would mark a bottom in any other market are storting to fall into place," he says. Unlike in the summer of 1994, ochody is piling into

storting to fall into place," he says. Unlike in the summer of 1994, ochody is piling into the market for liquidity or rotational reasons, in spite of the strong performance of all Russia-reinted fixed income instruments and of the neighbouring markets in Poland, up almost 50 per cent sloce the start of the year, and Hungary, some 60 per cent ahead.

Government backing lifts Taipei and Seoul

Govarnment-backed support lifted equities in Taiwan and South Korea, and New Zealaod, too, had a good day. Tokyo and Bombay were TAIPEI decided that political

tensions with China were easing, and the weighted index rose 90.20 or 1.8 per cent to 5,040.52 in turnover of T\$42bn. The paper sector saw strong bargain hunting and soared by 3.8 per ceot. Textiles rose 3.7 per cent and in construction, up 1.9 per cent as a sector. Taiwan Ever Fortune climbed by T\$2.10, or just under the daily 7 per cent limit, to T\$33.40 on buying from the stock market stabilisation

SEOUL was led sharply higher by demand for Samsung Electronics and other bine chips as a more upbeat mood emerged on the view that the government was committed to supporting the market in the run-up to the National Assembly elections on April 11. The composite index moved

ahead 9.85 to 869.98. Samsung Electronics hit its upper limit of Won96,900, up Won5,400, after receot sharp

falls on worries over a decline in semiconductor prices. Ssan-gyoog Securities said it regarded Won150,000 as a realistic trading price for the stock, while Tong Yang Securi-ties valued it at Woo182,000. WELLINGTON went oo a

late buying spree which sent the NZSE-40 Capital index 28.0 or 1.8 per cent higher to 2,161 2, with cash freed from the Brierley buy-in by an Asian consortium cited as one factor in the

renewed demand. Fletcher Eoergy was the day's star performer, advanc-ing 24 cents to NZ\$3.14. Telecom overcame an early decline to finish 5 cents up at NZ\$6.63 while Carter Holt Harvey added 10 cents at NZ\$3.20. News that CHH had achieved its long term goal of a seat on the board of Chile's Arauco was interpreted positively.

KUALA LUMPUR's blue chips found buyers in the sec-

and half of the day, but secood

taking as the composite index gained 4.37 at 1,126.90 in volume of some 187m shares. A dealer said the weekend Taiwanese presidential elec-tions and Malaysia's Bank

liners still fell prey to profit-

Negara report oext week were keeping investors sidelined. SYDNEY's All Ordinaries index ahed 6.9 points to 2,249.4 in turnover of A\$602.5m. The pay televisioo operator Australis Media plunged by an

cerns over its continued funding by US partners. Australis said later that it had secured short term funding support and the shares recovered a little to end 8 cents off at 60 cents, after 53 cents.

intra-day 20 per cent on coo-

Australia Media Share price & Index (rebesed) All Ordinaries Index

Last Friday, Australia reported a net loss of A\$97.5m

December 31, and accumulated losses of A\$239.85m at end-1995. The company started its satel lite pay television operations uary of last year.

HONG KONG featured heavy buying of a recent major lag-gard in Hutchison, which topped the actives list and added HK\$1.20 at HK\$47, after HK\$47.70, on talk that the flotation of Orange, its UK mobile phone unit, bad been well received.

However, the Hang Seng index dipped 43.97 to 10.836.59 in a correction after Tuesday'e 279-point jump. Turnover fell to HK\$4.64bn from the previous day's adjusted HK\$4.99bn. Sun Hung Kai Properties lost

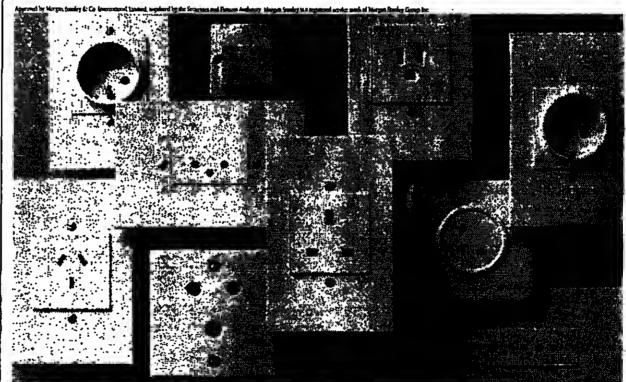
close it announced a 5 per cent rise in interim net profits.

JAKARTA fell following profit-taking in second-liners, and selling pressure in cigarette shares on reports that the government planned in raise

75 cents at HK\$69.50. After the

excise doty on tobacco prod-ucts from April 1: The JKSE composite index essed 1.37 to 585.98, with the elgarette heavyweights Sampoerna and Gudang Garam down Rp400 and Rp100 respectively at Rp24,500 and Rp28,100,

KARACHI weakened by a perceotage point as the absence of funds and local institutions led speculators to sell short. The KSE 100 index retreated 16.57 to 1,582.11.



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OI WICK	right) X	<u> </u>	Unideax	ander.	KHQQX	ingex	on day	Yield	Index	inclex	Index.	index	Index	High	LOw.	(approx)
Australia (81)		1.0	193.60	134.47	153.57	171.85	0.9	3.99	198.08		132.73	1S1.81	170.25	202.74	158.78	163.45
Austra (24)		1.1	177 75	123.46	140.99		1.3	1,60	181.62		121.70	139,19	139.03	199.28	188.11	182.28
Seigarn (32)		0.8	200.76	139.44	159.24	155.20	9.0	3.68	205.85	199.26	137,94	157.77	153,78	215.81	174,38	180.67
Brazi CS:		-0.6	145.98	102.09	118.58		-0.8	1.75	152.88	147.98	102,44	117.17	277.49	170.25	107.35	112.04
Canada (101)		0.2	151 88	105.50	120.48		0.1	2.43	156.73		105.02	120.12	154,38		129.95	
Denmark (33)		-0.9	281.84	195.78	223.56		-0.8	1.80	293.92	284.S1	190.98	225.28	227.74	305,17	252.41	262.78
Finland (24)		1.2	182.79	128.98	144,99	162.94	1.4	2.69	186.59	180.62	125.04	143.01	180,48	276.11	171.13	187.08
France (96)	IB7.42	00	181.34	125.05	143.84	145.3 <u>8</u>	0.0	3.11	187,39	161.39	125.57	143.62	148.39	191.17	187.70	189.22
Germany (60)		09	167.81	118 42	132.95	132.95	1.1	1.94	171.85	105.16	115.02	131.55	131.55	173.79	142.25	151.24
Hang Kong (58)	127.59	2.8	414.00	287.55	328.39	424.73	2.e	3.40	417.23	403.67	279.58	319.77	414,14	451.19	323.87	345.64
reland 151	262.18	11	253.85	176.18	201.20	234.01	1-2	3.43	269.23	250.83	173,71	195.65	231.25	265,00	205.24	208.24
Raly (59:	.73,92	0.0	71.52	49.67	56.73	96.01	0.6	1,84	73.32	70.97	42.13	56.20	85.49	82.71	65.45	65.45
Japan (482)	49.06	0.4	144.22	100.17	114,40	100,17	0.7	0.77	148,45	143.70	99,48	113.77	99,48	184.82	137.75	145.17
Malay≲a (107)	30.72	0.5	522.20	382.71	414.21	528,60	0.7	1.84	538.96	S19.77	359.B2	411.54	525.17	551.95	425.77	477.31
Mexico (18)	56.17	4,7	1118.63	776 98	887,31	9487.60	4.2	1.48	1104.46	1069.12	740.12	845.49	9119.69	1237.14	881.51	691,51
Nemerard (19)	85.96	8.0	276.68	182,17	219,46	215.63	9.0	3.21	284.21	275.11	190.45	217.83	213.98	285.96	228.30	231.90
New Zeniand (13)		0.0	78.81	54.74	62.51	63.39	-0.1	4.74	61.48	78.88	54,61	62.45	63.48	85.49	72.39	73.71
Narway (33)	41.02	0.2	233,20	161.97	184.97	210.14	0.2	2.38	240.63	232.83	161.25	184.43	209.74	243.70	205.19	210,77
Singaziore (441	139.10	2.1	424.84	295.09	336.98	284.77	2,1	1.42	430.10	-416.33	268.21	329.54	278.81	485.21	350.19	356,12
Scutt: Africa (45)	85.65	-0.1	373.14	259.18	295.98	331.15	-0.3	3.15	386,11	373.74	258,73	295.92	332,04	437.76	329.21	340.12
Spain (37)	68.09	0.8	162.63	112.98	129.00	158,03	0,8	3.86	186.78	761.42	111,75	127.81	156,78	173,89	124.10	125.90
Swedon (45)	50 49	1.8	339.11	235.54	268.98	346.17	1.1	2.37	344,45	333.42	236.82	283,96	342.54	\$50.49	232.23	237.93
Switzerland (33)	47.41	0.5	239.38	169.27	188.87	162.70	0.7	1.56	248,12	238.24	154,93	188.63	181,42	247.41	175.18	178.38
Thailand (46)	78.49	0.5	170.7E	118.60	135,45	172.95	0.5	1.90	175.64	170,01	117.70	134.61	172.00	193.95	134.02	134,82
Urated Kingdom (205)2	29.34	0.7	221.90	154.12	176.01	221.80	0.8	4.21	227.82	220.53	152.66	174.61	220.53	235.50	198.11	198.11
USA (631)	20.389	-02	257.41	178.79	204.1B	266.05	-0.2	2.18	266.53	257.99	178,60	204.27	266.53	269.11	202.35	202,51
Americas (778)	42.64	-0.1	234.76	163.08	186.21	203.91	-0.1	2.18	242.97	235.19	162.81	188.22	204.20	245.54	154.88	184.88
Europe (726)		0.7	189.63	138.66	158.35	178.25	0.7	3.09	205.00	198.43	137.37	157.13	177.11	208.93	172.79	173.31
Norde (136)		1.1	287.82	189.62	228.30	256.68	0.7	2.32	294.34	284.91	187.24	225.58	254.93	297.48	222.22	230.31
Pacific Basin (932) 1		0.6	157.20	109.25	124.76	112.03	0.9	1.21	161.54	155.37	108.25	129.81	111.06	171.87	148.86	153.70
Euro-Pacific (1558)		0.6	174.63	121.43	138.68	137.11	0.6	2.10	179.55	173.60	120.32	137.61	136.07	183.30	158.92	181,78
		-0.2	250.89	174.28	199.01	258.59	-0.2	2.18	259.74	251.43	174.06	199,07	259.03	252.26	197.96	198.01
North America (752)						152.90	0.7									
Europe Ex. UK (521)		0.8	182.54	128.79	144.79			2.48	187.48	181.46	125.62	143.67	151.89	188.66	153.44	156.03
Pacific Ex Japan (350)		1.5	277 44	192.70	220.07	249.63	1.6	3.01	282.40	273.35	189.24	218.44	245.82	293.58	233.75	237.11
World Ex. US (1750)		06	176.15	122.35	139.73	141 30	0.7	2.13	180.93	175.13	121,24	138.67	140.27	184,71	189.65	162.10
World Ex. UK (2176)		0.2	199.23	136.38	156.03	172.69	0.3	1.85	206.42	195.64	137,65	157,44	172.1S	297.64	170,30	171,93
World Ev. Japan (1899)2	40.42	0.2	232.61	181.57	184.51	228.41	02	2,55	233.84	232_18	160.72	183.82	225.87	242.17	191.14	191.35

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UK TELECOMMUNICATIONS MARKET

A turbulent 12 months

dominating discussions across the UK industry and beyond is the regulation of BT's prices between 1997 and 2001. Alan Cane reports

Section 1 Table 19 Ta Since the privatisation of British Telecommunications more than e decade ago, the telecoms sector in the UK has seen dramatic changes, catalysed by the emergence of more than 150 new competitors. The past 12 months, however, have been turbulent even for such e volatile industry.

BT and Mr Don Cruickchank, the industry watchdog. have clashed publicly and noisily over regulation. The mobile phone sector has grown massively and shown early aigns of maturity: the flotation of Communications seems likely to provide a new and lively member of the FTSE 100. And Cable and Wireless. the UK's oldest national telecoms company, looks vulnerahle to sell-off or merger after an extraordinary boardroom row between its former chairman and chief executive. Talks with BT over a proposed "reverse takeover" are cur-

rently suspended. Some developments have met with wholehearted approval throughout the industry, The much mallgned ess Deficit Contributions (ADCs), a form of compensation to BT for maintaining a nationwide network (but in fact naid only by Mercury Communications) are being abolished as part of a package of regulatory changes which will give BT new price flexibility. The regulator has agreed to scrap controls on BT's line rental charges, allowing it to "re-balance" higher line rentis expected later in the year. The government is expected to end the "international duopoly" which gave BT and Mercury the sole right to transmit international calls over their own networks. AT&T, Energis, Colt and MFS are among the competitors in the business market which are expected to seek international licences.

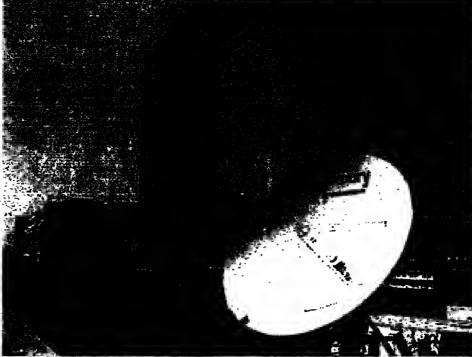
The issue dominating discusons across the UK industry and beyond, however, is the regulation of BT's prices in the five years between 1997 and 2001. There are widespread fears that the climete for investment in the UK could worson if the regulator queezes BT's profitability.

BT's prices are the benchmark for the rest of the industry. If BT has to struggle to make a reasonable return, its competitors will fare worse. AT&T, the largest US operator. is only one of a oumber of overseas operators holding fire on its investment in the UK until the nattern is clearer.

As the former monopolist, BT's charges for services where competition is not yet fully developed are regulated to protect customers, to prevent predatory pricing and to encourage efficiency. A cap is epplied to e basket

of these services, determloed by a formula set as the rate of inflation minus X - currently 7.5 percentage points. Where inflation is low, as et present, BT is obliged to return funds to its customers in the form of price cuts.

Mr Cruicksheok, directorgeneral of Oftel, is currectly holding talks with the industry to decide the value of X and what services to include in the basket in the years after 1997. What has alarmed most of the industry is his apparent belief that BT is already too profitable. Some analysts believe ha would like to see BT's profits in 2001 in the £1.75hm - £2.5hn range, compared with £2.9bn



Mercury Communications triecoms centre in London: will the 'international depoch' and?

Mr James Golob, telecoms onalyst et Dautscha Morgan Grenfell said in an influential research oote earlier this year. "If BT is capped at a rate of returo betweeo 9.2 per ceot and 13.4 per cent, theo the rest of the UK telecoms indostry will struggle to achieve a

"Such a low return can hardly be worth pursuing, given the riske and the required scale of investment." BT compialos that Mr Cruickshank is treating it as if

it were a utility such as gas or

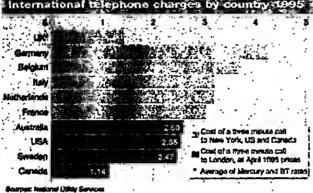
electricity where the risks are

return in double figures.

It argues that the telecoms business involves bigh investment with uncertain prospects

Mr Peter McCarthy-Ward. head of BT's price review team. says: "We do not think this is a low risk husiness, it has characteristics very different from the gas or water lodustries. Oftel's proposals, by conceotrating oo price and price alooe, oray lead to levels of return that deter investment." Mr Cruicksbank made his

positioo clear earlier this



low, with corresponding month in a published statement: "If Oftel regulates BT in such a way that shareholders canoot earn a sufficient return oo their capital, they will not iovest and customers will suffer. It is, therefore, not in the customer's interests and nor is it part of Oftel's objectives to

penalise BTs shareholders. "However, this does oot mean that BT should be able to earn monopoly profits for its shareholders by exploiting customers or seeking in exclude competitors, through its powerful market position."

A decision oo the value of X and the services to be included lo the basket is expected towards the end of the summer, although Mr Cruikshank was expected this week in give further hints of his intentions. If BT cannot agree with Mr Cruicksbank'e decisioo, the issue will be referred to the Monopolies and Mergers Commission for adjudication.

This is very moch a last resort. An MMC investigation takes about nine mooths to pursue, involving senior management on both sides in costly and time-coosuming preparation. Uotil last year, it



theo by mutual agreement - to ances to take on BT nationally. ensure the closure of dubious "chat" lines. In 1995, however BT could not agree with Mr should bear the full burden of the costs of number portability - the right of e customer in retaio a familler telephooe oumber when changing operators, in that case, the MMC largely backed Mr Crulck-

A cootinuing problem for BT, seeking relief from the attentions of the regulator, and for Oftel Itself, is the failure of new market entrants seriously to dent BT market dominance, Cable televisioo companies, allowed to offer voice telephony since 1991, are beginning to cut into BT's residential market share after a slow start. Some 50,000 BT customers a month are now moving across, prompting BT to offer a range of new pricing packages. Penetration should be helped by number portability expected

to be evailable this year. The cable operators are investing massively to create an information superhighway, areas. There is no sign yet of e

Two industries, bowever. have startled the UK telecoms industry in the past year by their vigour and growth poten-

tial. The first is the Internet, the worldwide network of computer networks. According to the consultancy Durlacher Multimedia, about 1.5m people in the UK had active access to the internet by the end of last year. Some 67 per cent were from education, but e substantial proportion were business

Durlacher says the UK markat will grow exponeotially: "As more PCs are sold and the Internet becomes available via cable television and ecross wireless telecommunications networks, sobscriptione through commercial Internet access service providers will surge ahead."

timised" the Internet in the UK hy offering e resideotial connection service. There is a possibility that low-cost voice telephooy across the loternet could force operators, including BT, to rethink their international strategies.

BT has to some exteot "legi-

The second industry to surprise is mobile telephooy.

IN THIS SURVEY

Telephony revenues are scaring and the cable industry is poised to introduce several improved Page #

 PCS operators: National coverage is the main issue Davies, Mercury's chief

 Operator profiles Energis AT&T



adline for digital: Operators have already acted to discourage new subscribers to the analogue networks Radio access: Telephones take to the air: Next week. the UK'e first fixed service sed on radio technology will be launched

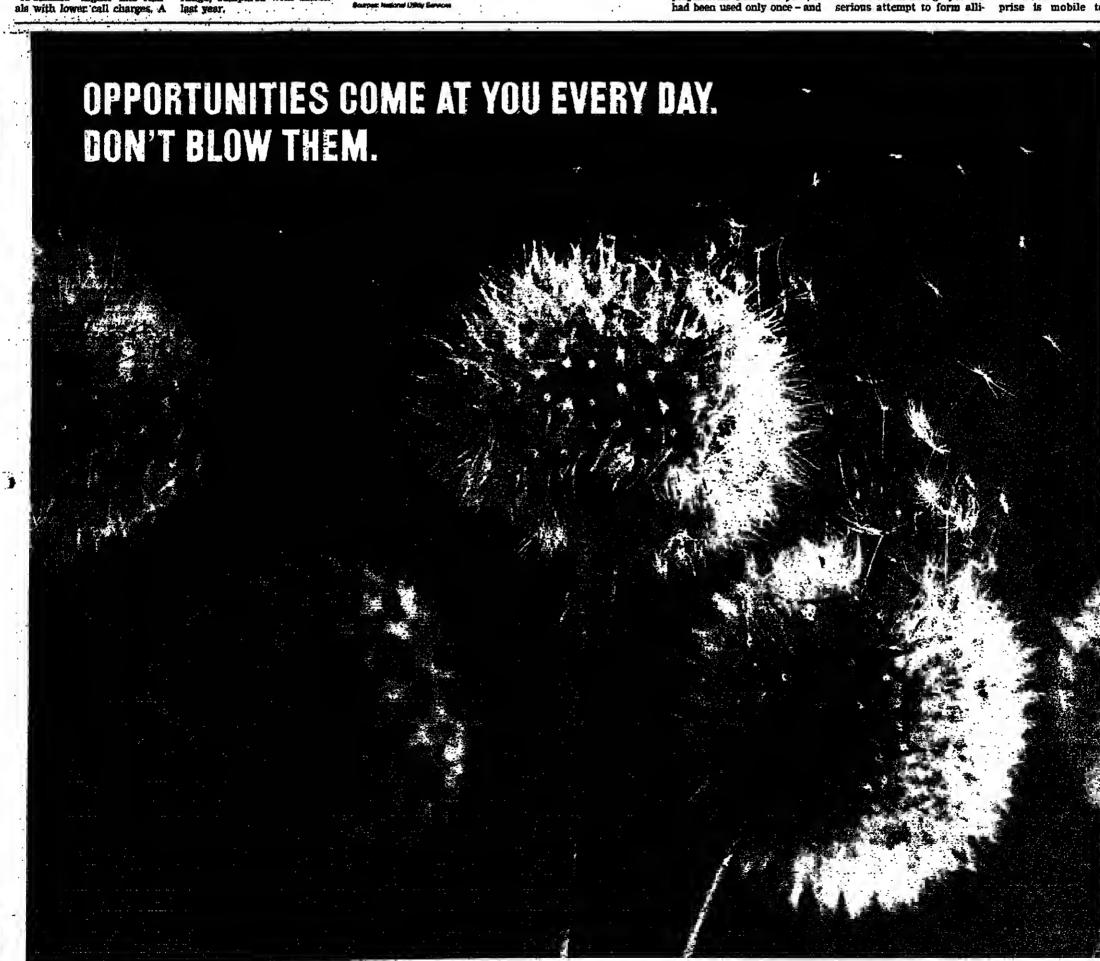
Other licensed operators: Confidence abounds: The proliferation of alternative operators points to e buoyant, highly compe market where demand is strong

The manufacturers: search indicates that the market for digital exchanges in western Europe will be \$7.9bn in 1996, rising to

Production Editor. Philip Sanders

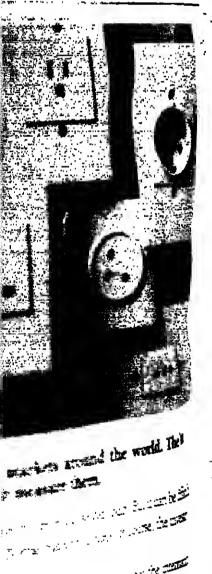
According to Mr David Lewin, e telecoms analyst with the Londoo consultancy Ovum, mobile operators could have a 50 per cent market share by the year 2000. Mobile phone peoetratioo measured as the number of phones per head of population would equal fixed line penetration by 2002, be

BT has a majority stake in the mobile operator Celinet, but the implication is that its market share could fall sharply irrespective of the efforts of more conventional competitioo or the efforts of the regulator.



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Time for a lighter approach

In essence, the telecoms watchdog could abandon the role of rulemaker to become market policeman enforcing competition law

Telecommunications regulation in the UK is at a crossroads. In the next few years, masses of weighty legislation may be swept away in favour of a simpler, competition-driven environment. If, that is, the ragulator and the UK's larger telecoms operators can agree on the way to pro-

Over the past decade, regulation has been responsible for substantial reductions in the prices paid by business and residential customers. It has also encouraged new competitors to take on British Telecommunications in virtually every sector of the business from local services to pay-

As a consequence, the UK boasts the most regulated yet most competitive telecoms market in Europe, The regulator, Mr Don Cruickshank. director-general of the Office of

Telecommunications (Oftel), dominant operators to ensure would like this situation to they do not indulge in antichange. He wants to move away from today's detailed regulation wblle simultaneously promoting a competitive envi-

As he said in a speech last year: "Thera needs to be some-one with the duty of promoting effective competition. This means working on a whole range of micro issues to enable regulation progressively to melt away as the emergence and rooting of effective competition enables market forces to take on the role which they A recent Oftel paper on fair trading explains: "Oftel consid-

One problem is that competition law in the UK is weak

for a clear move towards a reg-ulatory approach which is at the same time lighter and firmer; lighter in that it imposes fewer a priori prescriptive rules but firmer in that it puts the onus clearly on

competitive behaviour.

In essence, the telscoms watchdog would abandon the role of rulemaker to become market policeman enforcing competition law. It is an ambition shared by

BT. Sir lain Vallance, BT chairman, said last year. "My view is that the regulator ought simply to apply the rules, to act as a referee objectively and Despite this agreement on

the ends, BT and the regulator are poles apart on the means. Mr Cruickshank wants broad powers to be able to identify. put an end to, and punish anticompatitive hehaviour. BT ssys this would give him draconian powers of judge, jury and executioner in his own court and deny it the right of a final appeal to a higher author-

One problem at present is that competition law in the UK is weak. It cannot be relied on to halt wrongdoing and provide remedies for companies damaged by such actions. Furthermora, competition in

Communications in the early

telecoms has not developed at the rate expected when the government established, first, a duopoly of BT and Mercury



Don Cruickshank: currently in

1980s, and then opened the market to all comers in the

BT, in fact, retains an overwhelming dominance. When it was privatised it had virtually 100 per cent of the UK telecoms market. More than a decade later, its share has fallen to only a little under 90

There are a number of reasons for this. Mercury as a competitor did not always adopt the most effective strategies. BT, at the same time, shed thousands of staff. cut prices and implemented a

Sir lain Vallance: The regulato ought simply to apply the rules

raft of attractive market strategies. From being a state-owned sluggish, moth, it became a focused. aggressive operator more rapidly than its competitors might have believed possible.

It also has the advantage of ownership of the "local loop", the final connection between the exchange and the office or home. Only for the largest customars does It make economic sense for BT's competitors to huilt their own local loop.

For these reasons, Mr

Cruickshank believes it is still

competitors help establishing themselves. BT argues against that view: "That the role of the regulator is to ensure that BT trades fairly is common ground between us: but handicapping us in order to create room for our competitors is emphatically not," Sir lain

Regulation in the UK is largely the regulation of BT. Its licence runs to many closely-typed pages. Because of its size and dominance, it is generally considered to be the only operator which could indulge in anti-competitive hehaviour. Other, smaller, operators are awarded what are known as "slimline" licences with less onerous conditions. They do not, for example, have to publish price changes in advance.

The opportunities for anti-competitive behaviour for a dominant operator such as BT are substantial. Because every other operator at some time has to interconnect with BT because of the unlquitous nature of its network - each requiring an interconnect agreement - there are

countless opportunities to delay negotiations or delivery of product or services, causing investment uncertainty for competitors and forcing them to change the timing of their business plans.

An example is number

portability, the right of a customer to retain the same number when chonging operators. It is essential to the development of a competitive market place. Businesses, in particular, are loth to lose a well-recognised local number. Number portability is not straightforward; switches have to be re-programmed and calls diverted, all of which has a measurable cost.

BT agreed with the principal of number portability hnt disagreed with the regulator's view that It (or its shareholders) should hear the full burden of the cost.

The issne was eventually referred to the Monopolies and Mergers Commission which decided that BT should bear the lion's share of the cost, BT

Ferfectly legal but at the same time it prevented its rivals - the cable talevision companies and Marcury Communications especially - from benefiting from number portability over that period. This is not to suggest that Bil routinely engages in unfair practices; the line between ordinary competitiveness and unfair trading can be hard to define, as Sir Peter Bonfield, BT's recently-appointed chief executive, has argued.

managed to keep the

skirmishing alive for some five

years. Its arguments were

The question will be resolved later this year. Mr Cruickshank is at present consulting with the industry. If the two sides cannot agree, tha consequence will he another essentially lost the war, but referral to the MMC.

■ The cable alternative: by Raymond Snoddy

Revenues from telephony soar

The cable industry is poised to introduce a number of improved services, including a move to interactivity

The cable industry in the UK tends to become exasperated when critics continually point to disappointing performances in cable television.

Surely there must be some thing wrong when the percentage of consumers actually subscribing to their television packages has been stock stubbornly at about 22 per cent for the past three years, the critics

The reality, the cable industry argues, is that billions of pounds are being invested in creating a snperhighway which will meet the UK's future communication needs - and that now is the time to begin the husiness of marketing cable nationally with a £12m campaign. And anyway, the cable industry argues, in cable franchises already one in three homes is taking a service either for television, telecommunications, or a combination

Increasingly, it is telecommunications that is the cabla success story, with subscriptions rising at a far faster rate than television.

In the year to January 1 1996, the number of cable tele-

Videotron, the largest cable group in London, has introduced its own ISDN

from 717,586 to 1,419,819. There was a similar rise in husiness lines from just over 68,000 to 132,571.

The growth in the number of lines installed has already been translated into significant revenues for the cable

In 1995, for example, TeleWest, the largest UK cable company, increased its residential telephony revenues by 145 per cent from £23.5m to £57.6m as nearly 481,000 lines. Business telephony revenues nearly doubled from £8.8m in 1994 to

£17.4m last year. At General Cable, another of the big participants in the UK, telephony last year accounted for more than 67 per cent of total revenues, with residential customers spending an average of £288 a year and each business line producing average revenues of £988.

Already there are more than 145 cable telecommunications licences and the cable industry is optimistic that it will soon be able to increase the rate at which it can entice consumers away from BT and Mercury because of the arrival of "number portability" - which will enable customers to take their old number with them when they switch to cable. Number portability should begin to happen in the uext six months and should be universally available within a year.
"Consumers' ability to

retain their telephone number as they move to cable will remove a barrier for many people wishing to subscribe to the benefits of cable telephony and the services offered by TeleWest," the company said recently.

Mr John Killian, president and chief executive of Nynex Cablecomms, the second-largest cable operator in the UK, believes that liberalisation and increased competition in the telecommunications market has been of enormous benefit

While technical change has obviously heen a factor, as well as increased competition. in 1984 the percentage of BT 1995, the industry average was 0.2 per cent. Fault repair within two days increased from 87 per cent to 95 per cent and installations on time rose from 60 per cent to 95 per

According to figures from Oftel, there has been an even more dramatic change in real residential telephony charges between 1984 and 1995. Rental



and increased competition

charges have risen by 8.6 per cent hut connections fees have dropped by 40.9 per cent, local calls are down by 43.8 per cent, long distance by 78 per cent and international by 53.7

The cable industry is also poised to introduce a number of improved services, includ-

Videotron, the largest cable group in London, has recently introduced its own ISDN service offering high quality lines with customers offered free installation. A previous initiative, a "free local calls" scheme, was launched two years ago and so far more than 9m free voice and data calls have been made by subscrib-

Sophisticated telecommunications services will become more common and General Cable is among the cable companies which will be offering ISDN services later this year.

The three largest operators TeleWest, Nynex and Bell Cablemedia - have joined together to fund a laboratory to develop a range of interactive products to be introduced

One of the obvious opportunities is to offer fast access to the Internet and trials have already taken place. A first service, with conventional speed modems, is expected to be introduced later this year.

An Internet service offering much faster access than at present, using high-speed modems, is expected to be introduced early next year.



Bob Wright: believes high-speed Internet access could be the saviou

Mr Bob Wright, president of NBC, the US network company Microsoft to launch new forms of interactive television. believes such high-speed Internet access could be the saviour of the European cable indus-

Some telecommunications

analysts believe that the cable companies have a window of opportunity of perhaps two or three years to develop their telephone businesses. After that, intense competition in the market place could continue to squeeze cable's pres-





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Key areas for *Improvement*

Mr Peter Howelt-Davtes's reintroduction to Mercury Communications was traumatic to say the least. He had been deputy chief executive of Hongkong Telecom for only two years when the call came last summer to take controt of the company be had belped nurture though its earty stages more than a decade

The reason for his sudden recall was the abrupt departure of Mr Duncan Lewis, Mercury's ebullient but abrasive chief executive. He left after a disagreement over policy with Mr James Ross, former chief executive of Cable and Wireless, which owns 80 per cent of the UK's second-largest lelecoms

Both companies were already going through troubled times. Mr Lewis bad been brought in only nine months earlier to oversee a radical restructuring programme aimed at restoring Mercury's profitability.

The company had developed a poor record for quality of customer care and service. The Cable & Wireless international strategy was in question and there were continual rumours of break-up or takeover. Worse was to come. By the end of the year, both Lord Young, C&W been asked to leave after a personal row became public

He sets great store by his inside knowledge

The imperative for Mercury had to be a period of stability in the care of a safe pair of hands. Mr Howell-Davies, now 52, has been a C&W employee all his working life. He joined in 1962 when the company was still a government department and be was managing director of Mercury in 1990.

A genial, approachabte man, he sets great store by his inside knowledge of the group: "The fact that t was known by 40 or 50 per cent of the people inside the company was belpful," he says, pointing out that the Interim results - Mercury made operating profits of £103m, up 7 per cent on the year before - indicated that a measure of stability had been achieved.

Mr Howell-Davies is broadly following the strategy set by Mr Lewis: cutting costs and focusing on particular markel sectors uch as the oil industry and obarmaceuticals.

He points to two key areas where Mercury must improve: "I am focusing strongly on the quality of service Mercury provides. I do not think it is as good as It needs to be. Low prices and quality of service will be taken for granted soon and operators will have to differentiate themselves by the value they can add to the services.

"It is not something we will be abla to accomplish overnight. As long as I can see incremental improvements against a given benchmark, I will not be unhappy.

"It is something Mercury has got to get right. In the early days of the company. we used to have a 'can do' attitude. If customers wanted new lines in their offices, we would get them in no matter what it took. "We want to retain a 'can

ensure that the basic services go in when the customyr wants them, to a price they find acceptable, every single

One indication of the emphasis on qoolity is the appointment of Mr Christopher Chadwick from the Leeds Bnilding Society as enstomer service director.

Mr Howell-Davies's second priority is the group's computer systems; "This company, like any telephone company, is bugely dependent on computer systems, whether to bill customers, provide services or create marketing databases - nol lo montion the switches we need to run the network or add intelligent oetwork

"Mercury has not had a very good track record for systems. We have never been very good at implementation. We are good at identifying what we oeed; very good at designing what we oeed. But when it comes to the implementation, we have been less than perfect. He adds: "I want to be sure that we successfulty identify and implement lbe new systems that we oeed. It is easy to get a disconnect between what the business sponsor says be wants from a new system and what the information technology department is beavering

Better systems could imply fewer staff. Mercury bas already lost some 2,500 jobs in the past year, and got ont of unprofitable areas such as publie payphones, customer equipment and directory inquiries.

Mr Howell-Davics believes staff numbers will fall further, but is reluctant to quote a figure. "t do not know the figure. Bul if we can reduce the number of faults and billing inquiries by installing better systems. we will need fewer people to manage the number of enquiries."

The most visible aspect of Mr Howett-Davies's tenure has been an advertising blitz of heroie proportions,

featuring cartoon characters. "Mercury has not advertised for wett over a year for obvious reasons. Mr Howell-Davies says. "We felt we were sufficiently back on track and aufficiently confident of the ongoing growth of the business that it was time to get back into the marketplace.

"tt was time to demonstrate clearly that we were here to stay and that we were going to continue to be a aignificant player." That could involve a close relationship with the cable television companies: Mercury is working with Bell of co-operation which other cable companies may be

tempted to emulate. If, of course, Mercury is not sold off as a consequence of the sale and break-np of C&W. Revelations that and C&W have been discussing the possibility must raise questions about Mercury's future.

Mr Howell-Davies, however, is sanguine about the future: "Cable & Wireless continues to say with great togic that Mercury is a key part of its global strategy. Mercury is C&W's European hub and the 13th-largest carrier of international traffic in the world. It would be difficult to see how C&W could sustain a global strategy without a significant player in the

Alan Cane

■ PCS operators: by Christopher Price

National coverage is the main issue

Digital offers better quality, greater capacity and lower service costs

than analogue When Orange floats on the London and New York stock markets later this month, there will be one message which the UK's youngest mobile phone group will bove left embedded in Investors' minds: coverage.

"The most important factor in mobile is coverage, coverage and coverage," says Mr Hans Snook, chief executive of Orange. "You cannot offer mobility of phone usage withoul being able to offer national It is a message which has not

been lost on Mercury One-2-One, the other of the four UK licenced operators to offer a purely digital mobile service. The company, which is uwned by Cahle & Wireless and US West, has pursued a markedly different policy to Orange, ouling to develop regional coverage ahead of a national strat-

However. One-2-One has decided to change its policy. "We have recognised that coverage has becuoie a major Issue at the point of sale, and we have brought forward our

roll-out," says Mr Riebard Goswell, managing director of One-2-One.

The group will have some catching up to do, however. Orange, which came into the per cent coverage, while Vodafone and Cellnet, which have been operating for more than 10 years, have more than 95 per cent.

One-2-One, which was launched several months before Orange and which has concentrated its efforts in the south-east of England, has just 40 per cent national coverage. It is aiming for 45 per cent by the end of this month and for 80 per cent by the end of the year. Il hopes to have 95 per cent coverage by the end of

However, Mr Goswell is keen to emphasise that its regional policy has served the company wetl, and that it is simply responding to the changing regulrements of its customers. "Launching a national service with the technology we were using would have been high-

The company's research showed that the pattern of a majurity of telephone calls revealed a heavily regional

"Our capacity in the London area is twice that of any of our

competitors," says Mr Goswell. Mr James Ross, telecoms analyst al Hoare Govett. belleves Oue-20ne's regional expansion policy has helped establish the company's strong brand image as a value-for-



major issue at the point of sale

stand it in good stead for the future. "Ninety per cent of all new customers over the oext decade will be private domesno users and Onc-2-One has shown itself adept at succeeding in that area of the market." In addition to coverage, the four operators differ in other

On pricing, for example, each

areas of their business.

of tariffs and incentives in order to differentiate Itself - and thus make itself more attractive - to potential customers.

One-2-One has perhaps been the most prominent in promoting its low-cost tariffs, emphasising its free local calls at weekends and evenings. although the latter bave recently finished due to what Mr Goswell calls the end of the "launch phase." However, be maintains: "Fuodamentalty, we are still the best value-formoney mobile phone operator for a person making regular use of the phone."

The other operators would dispute this, in particular Orange which has made a virtue of its price innovalions. Its tariffs, geared to the amount of phone usage in clear unambiguous lerms, has won it applause in an area which many mobile users have found most complex and daunting It is one of the reasons Orange claims a lower churn" - the rate at which subscribers fail to renew - of about 18 per cent against an industry average of 23 per cent. The tariff compelition from Orange and One-20ne bas prompted changes from both Vodafone and Cellnet, It has

prices as the operators offer subsidies to dealers in order to offset tariff rale differences. Handsets which should retail for about £200 or more are being sold for as little as £9.99.

Another area of differentiatioo bas been io service. Unlike Celinet and Vodafoue when they launched. One-2-Ooe and Orange were allowed to contract customers directly. This has enabled both companies to build their brands through direct sales and advertising, and also to benefit from improved cash flows, beloed by putting customers on direct

Vodafone and Cellnet, which Analysts believe there will be sufficient room in the market

used to have to sell through dealers, are also now able to contract customers directly. However, most of their busioess is still conducted through service providers such as Talkland and Peoples Phone. These sell air time to dealers and cuslomers, arranging their own tariff structures, discounts and also put further downward special offers, Crucially, it is

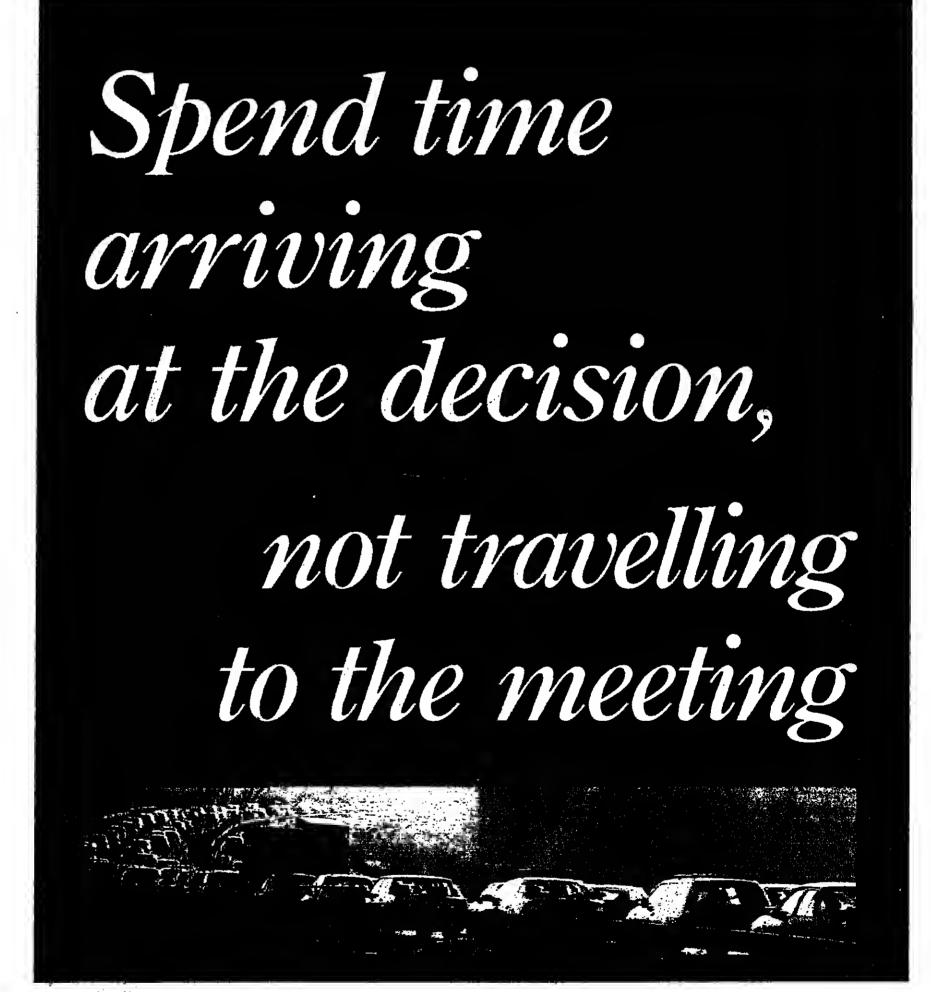
the customers, not the network

operators. Due to their bead start, Vodafone and Cellnel each have about 44 per cent of the mobile market, with Orange and One-2-One sharing the However, the market is divided between the old analogue service, offered by the two origi-

nal operators, and digital, offered by all four companies. Digital is seen as the industry standard of the future. offering better quality, greater capacity and lower service costs than the analogue technology. A government advisory paper recently recommended that all mobile phooe users

should move to digital by 2005. Orange and One-2-One have signed up more than 400,000 each of the 5.5m mobile users in the UK, equivalent to about a 25 per ceut share each of the digital market.

However, while the differences between the operators are likely to become more marked as the mobile market becomes more mature, anathe market will leave room for all four to operate profitably. the mobile market will bave 12m users by the end of the decade and 19m by 2005.



BT's Conference Call instantly connects together colleagues who are in different parts of the country or abroad. It enables decisions to be reached much quicker and more to be done in a day. It's ideal for developing and maintaining better relationships between

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The pressure is mounting

Many in the telecommunications industry believe Mercury has only recently come to terms with the full implications of the government's duopoly review. published five years ago this month, which opened up the UK's fixed telecoms market to competitors other than Mercury and BT.

Mercury was criticised for continuing to behave after the 1991 review as if only itself and BT were present in the market place and attempting to compete with its larger rival only on price rather than on developing innovative new

The low point for the carrier was certainly December 1994 when, following disappointing interim results, an extensive

with the result that about one-third of its 11,400 workforce left and its directory inquiry, payabones and customer equipment activities were either closed or

cut back its activities in the residential telephony market. Matters bardly seemed to improve with the resignation in September last year of chief executive Duncan Lewis. hrought in from pareol Cable & Wireless to supervise the 1994 restructuring. The departure of Mr Lewis. Mercury's third chief executive to leave in 31; years, followed disagreements with members of the C&W board

over strategy. Then, only two months

chairman Lord Young and chief executive James Ross both left after an internal power struggle. The publication this month of a government proposal to end Mercury and BT's duopoly on in addition, it also severely facilities-based international services, which had been preserved by the 1991 review intensifies pressure on Mercury to reassess its future

direction. Further insecurity was raised by the revelation that C&W recently had unsuccessful merger talks with BT. If C&W, which in the past has had similar talks with AT&T, bad agreed a deal with BT, theo Mercury would certainly have had to be sold on to another carrier to avoid the merger running into regulatory difficulties in the

rated highly by toe survey. The carrier received a boost from the award of one of the government's three vireless-local loop licences in Fehruary. The licence entitles Mercury to use radio links to deliver broadband services, such as integrated services digital network (ISDN), to those business customers for which a direct link to the Mercury loog-distance

UK. The main thrust of

Mercury's business is now to

strengtheo its position in the

market for providing services

innovative services demanded

hy this group of customers.

competition not just from BT

but also from newer carriers

in the UK market such as

Telecommunications (Colt)

MFS Communications and

cable television operators.

service; a recent survey by

deliver services in the time

cable operators. Mercury's

billing system, however, was

promised, and repair faults, as

behind BT and several leading

Mercury has not been

helped by its customer

Oftel rated its ability to

AT&T, City of London

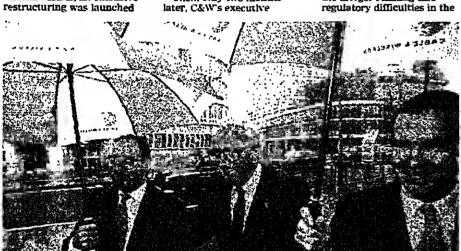
although it faces stiff

to corporate customers. It is

attempting to develop the

network is not cost-effective. The licence means that Mercury should be able to cut some of its sizeable interconnection payments to BT for using its local network. Breaking its reliance on BT in this way, in search of business customers, is indicative of the direction which Mercury hopes to find through a more focused strategy.

Richard Handford



torms ahead: (left to right): Duncan Lewis with Lord Young and James Ross in November 1994 Travor Humptress

OPERATOR PROFILE

Not yet master of its fate

Only after merger talks between British Telecommunications and Cable and Wireless, the UK's two largest telecoms companies, broke down earlier this month did the full ingenuity of their spectacularly novel plans

The acquisition would have created a world-class telecommunications giant outstripped in revenues only hy NTT of Japan, AT&T of the US and Deutsche Telekom of

Germany. Cable and Wireless, with a market capitalisation of about \$10bn, would have acquired BT, worth more than twice as much, through a reverse takeover.

BT had originally approached C&W with a view to merging with the smaller company. Under Hong Kong stock exchange rules, bowever, BT would have had sbareholders in Hongkong Telecom, in which C&W holds a 57.5 per cent stake. This would have added some 86bn to the cost of the takeover

and put it beyond BT's reach. The deal fell through ecause of disagreement over the value of C&W and difficultles in Germany where both companies bave strategic alliances. The prize for BT would

have been Hongkong Telecom, the most profitable of C&W's operations and key to an area where the UK operator is under-represented. The collapse of the deal leaves the UK's dominant operator still to build an appreciable presence in the Asia Pacific region but with its repotation for audacity in pushing forward its global strategy

BT, privatised since 1984, has transformed itself from a stodgy, national ntility through aggressive strategies

OPERATOR PROFILE

at home and abroad and close attention to costs. Some 100,000 jnbs have been lost over the past five years. It is now a serious contender for the role of Europe's leading telecoms company. Some measures suggest it is within 10 per cent of the performance of the world's

most efficient operators. In the UK, It performs as well, or better, than its competitors. Office of Telecommunications figures show, for example, that it cleared 87.3 per cent of network faults within its published target time. compared with 77.4 per cent for Bell Cablemedia and 98.7

per cent for Kingston Milestones include a deal with MCI, the US's second-largest long-haul carrier. The two companies formed Concert, a "global supercarrier" aiming to international business of multinational companies to which it can offer an seamless

"end-to-end" service. The MCI alliance is at the heart of BT's global strategy. It invested \$4.8bn for a 20 per cent share of the US company - a price which some commentators questioned at the time but which now

seems a foresighted deal. Ovum, the London-based consultancy points ont: "The alliance brings together the two companies' networks and skills. The cultures of the two are complimentary in that BT is known for being staffed with technocrats while MCI is more marketing led." In the early days of the

alliance, demarcation lines were strictly observed: MCI dealt with North America, BT bandled the rest of the world. As the two companies gain experience in working together, some relaxation of this demarcation is expected.

A further pointer to the future was the appointment at the beginning of this year of Sir Peter Bonfield. formerly chairman and chief executive of the computer company ICL, as chief executive. Sir Peter's appointment is reckoned to herald a new phase in the development of BT from a telephone company to a telecoms group able to provida a broad range of advanced services including multimedia and interactive services such as video-on-demand and home

experimenting with video games played across the network from kiosks. These developments are important for the group's

future. BT. despite its

shopping. It is already



Sir Peter Bonfield's appointment is reckoned to herald a new phase

dominance in the IIK market where it has about 87 per cent of the business markel, must find ways to increase its profitability.
Margins will come under increasing pressure as competition increases. especially from the cable

television operators, now free

the telecoms regulator is threatening to tighten the "cap" which regulates BT'a prices.

It has more than 26m customer lines, made up of 20m residential lines and 6m business lines. In the year to March 31 1995, it made pre-tax profits of £2.66ba, a 3.4 per cent decline on the year before, nn revenues of

The threat from cable operators, now persuading 50,000 BT customers a month to opt for their services, is

being taken seriously. As Ovum points out, BT's principal challenges are to make the Concert alliance work internationally while boosting call volumes and retaining customers in the

To support Concert it has been building alliances with partners in mainland Europe in preparation for the planned full liberalisation of the European market on January 1, 1998.

It plans, for example, to work with RWE and Viag, two of Germany's larger industrial groups spending up to £1.8bn between them to create a telephone network. In Italy it formed a joint venture, Alhacom, with Banca Nazionale del Lavoro last year while in Spain it has a

stake in Megared, a data transmission company owned by Banco Santander. The missing link is France and an acquisition or joint venture is expected in the

next few months.

For the future, much will depend on the regulatory regime. If the regulator applies a tight cap to prices, the group's attractiveness to investors may be damaged. BT, for all its focused master of its fate.

OPERATOR PROFILE

Bright sparks on the grid

Energis, launched 18 months ago in a blaze of publicity as the UK's third national carrier, has since settled down to a more pragmatic approach to the UK telecommunications market.

The carrier, which is owned by the National Grid Company, has pulled back from ambitious plans to become an all-round competitor to BT and Mercury in favour of concentrating on business customers.

Energis has dropped plans to provide long-distance services for consumers and to sell capacity on its network to other carriers, acting as a carrier's carrier, in favour of developing its husiness services such as virtual private networks, calling cards and bigh-speed data

serves around 20 companies in the UK with these kind of

The more cantious approach appears to have evolved since a restructuring last summer wben 60 ont of the carrier's 400-500 strong workforce were cut, including six top executives. The cuts followed the departure of former chief executive David Dey after reported clasbes with chairman Gordon Owen.

The narrower strategy is confirmed by new chief executive Mike Grahiner, who jolned Energis elght weeks ago from BT where he was director European operations. After the departure of Dey, Owen held both the positions of chairman and chief executive as an interim measure.

Corporate Communications

We need to use the intelligence and capacity of

our network to differentiate ourselves," says Grabiner, wary of falling into what he terms the "me-too" trap of Mercury which in the late 1980s and early 1990s presented itself as an

> According to Grabiner Energis must use the high bandwidth capability of its network, which is slung along The National Grid's electricity pylons, to develop new services in areas where no

ldentikit, but cheaper, version

Grabiner claims the carrier has already found such a niche with a service that routes calls from Internet customers to their access providers. Energis claims to carry 60 per cent of all such traffic and includes Mircosoft, America On Line. UK On Line and Demon amon

other carrier is present.



Energis eight weeks ago from BT

its customers. But before Energis can branch ont into other new areas it must acquire a higher profile. Grabiner was recently told by a customer that the carrier was the "best-kept secret" in the

telecommunications industry. A higher profile will also be useful for the carrier as it bunts for a strategic partner. a key objective according to the National Grid's November flotation document which lald ont its plans for Energis.

The Grid said Energis's development was slower than anticipated and that the carrier faced mounting losses Full-year losses in the year to Marcb 31. 1996 are likely to be considerably higher than the

£52.9m reported in 1994-95. A timetable of 12-18 months has been set by the Grid, which is thought to want to retain a stake in the carrier. for finding a strategic partner. The preferred match is another telecommunications carrier with an international presence which could bolster the international service offered by Energis to its

The carrier had unsuccessful talks with AT&T early in 1994 but the US international carrier is still a possible partner. Other candidates could include three other Sprint of the US. Teleglobe of Canada and Anstralian carrier Telstra, all of whom Energis uses for routing its international calls out of the

British Rail

But contrary to expectations

AT&T is taking a softly-softly approach to the UK with a business plan notable for its restraint and caution . AT&T will initially focus on

There is nothing unusual or particularly ambitious in this made its move sooner. It has been sitting on its UK telephony licence since 1994

It has always been difficult to figure out the exact nature of AT&T 's plans for the UK market or, for that matter, the rest of Europe. AT&T has procrastinated and in the past has appeared incapable of fixing a firm strategy for huilding up a husiness in the

AT&T is perhaps better known in the UK for high-profile deals that fell through rather than for anything it has actually done At one point AT&T looked set to storm into the UK market through the acquisition of Mercury Communications, or more recently by investing in

A giant enters on tiptoes

There was a general feeling of anti-climax when AT&T, the largest telecommunications operator in the US, finally revealed its long-awaited strategy for breaking into the UK market last month.

Only three months earlier, AT&T had announced a radical overhaul of its monolithic business into three highly focused divisions, a move that was expected to make the US giant a potent threat in Europe.

the medium to large business sector, huilding on the virtual private network and data services it already offers with the launch later this year of public long-distance and international services based on international simple resale. This will be followed by multimedia, video-conferencing and freephone services. Ultimately AT&T's aims to offer services to residential

approach, which makes it more surprising that AT&T has not and was originally due to launch services last summer

the UK that could have strengthened its hand. It was widely expected to be among the bidders for the sale of

Telecommunications, a subsidiary of the Britisb Railways Board that has its own long-distance network. AT&T's name was also absent from the line-up of applicants for radio frequencies offered by the Department of Trade and Industry last December for local loop services.

However, one should not underestimate AT&T or downgrade its chances of

achieving target revenues of \$1bn a year in the UK by the year 2000.

some good opportunities in the UK, but in the 15 months since it was awarded a UK telephony licence it has built up a long-distance back-bone network stretching from London to Edinburgh.

AT&T might have missed

in January, AT&T showed that it was capable of forming alliances with alternative UK carriers when it secured an with the City of London

Telecommunications (Colt). And now that AT&T finally knows what it wants to do in the UK there is every chance that it will be able to secure additional interconnection agreements with other

AT&T's UK strategy might not be adventurous hnt it is sensible and solid, qualities that are likely to win confidence in the busines community and make AT&T an enduring player in the UK

Eden Zoller

SIMMONS & SIMMONS

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Mobile telephony: by Richard Handford

UK TELECOMMUNICATIONS MARKET V

Radio access: by Kris Szaniawski

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Telephones take to the air

Next week, the UK's first fixed service based on radio technology will be launched

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Residential and small business users will next week have the choice of using an innovative radio-based telephone service which is being launched by a Cambridge-based independent start-up company

lonica uses digital radio technology to reach its customers rather than the conventional underground cahles or overhead wires. It is initially offering its services to customers in the Anglia TV region from March 26 bnt plans to gradnally extend its operation to the rest of the country. This makes Ionica the first national challenger to BT in the local loop, because cable operators have only regional heences.

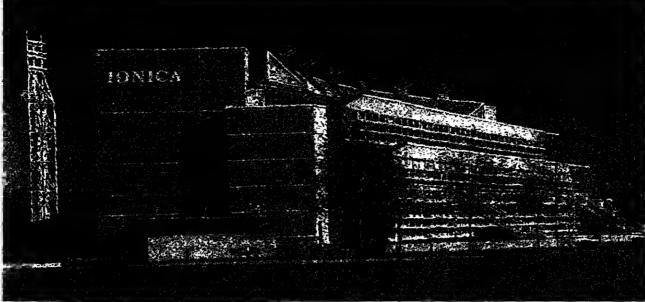
Ionica is the first UK operator to launch a fixed service based on radio technology. Several more such services aimed at residential users and smallmedium-sized husinesses will follow soon.

Radio technology has already been used internationally as a cost-effective means of introducing competition into newly liberalised developed markets, or to satisfy pent-up demand in developing areas where telephone lines are

The advantage radio technology has over other methods of operation is that it allows an operator to roll out a network onickly and with relatively little investment. Once a base station is in place, an operator needs only to connect its customers instead of digging up a street to lay cables. Low prices are a hig selling point for new operators and radio access technology helps to achieve

Nigel Playford, lonica's chief executive, says the new technology will ensure that the company can compete with BT on price as well as on service. Ionica will address the residential and small business market by using radio to provide the link between existing telephone equipment and Ionica's telephone exchanges.

Ionica claims that its radio-



lonks, the first UK operator to launch a fixed service based on radio technology, claims that its system will perform like a high-quality fixed service

high-quality fixed service. The fixed radio access (FRA) technology which it has developed in conjunction with Canaian manufacturer Northern Telecom (Nortel) to operate in the 3.4 GHz range of the spectrum, will deliver speech quality, availability and reliability at least as good or better than conventional wired networks. The FRA technology will support a full range of telecoms services and will have plug-in compatibility with existing telephones and other equipment such as faxes and

The FRA technology specifled by Ionica had to be purpose-designed to meet all these requirements and has taken e time to perfect. Although Ionica was awarded its operating licence in February 1993, long, drawn-out technical and customer trials took place before it was in a position to launch a commercial service. It has raised around £150m from leading investors such as Yorkshire Electricity, Telecom Finland, Northern Electric, Robert Fleming Investment Trust and CWB Capital Partners and a public offering in London and New York is likely this year.

Under the terms of the licence the company will have to reach 75 per cent of the pop-

within four years of beginning its service. The company expects to capture 5 per cent of the market within the areas it serves within five years of starting up. It will not offer a service in Scotland because it has agreed a £22m deal which will provide Scottish Telecom. a wholly-owned subsidiary of Scottish Power, with a licence and with access to its radio spectrum so that it can provide

telephone services throughout

Scotland.

ionica will need to attract customers quickly to forestall competition from several other radio-based services due to be launched in the next few years. The first of these competitors will be Liberty Communications and Atlantic Telecommunications, which both also have licences to run a wireless telecommunications service in the 2 GHz to 4 GHz frequency range and expect to launch commercial services in the first half of this year.

Like Ionica, Liberty Communications holds a national operating licence and will be targeting the small business and home-worker markets across

SOA

Atlantic Telecommunication, which is owned by cable television operator Caledonian

vice in the Glasgow and Strathclyde areas this spring. It aims to target bigh residential spenders and the small to

medium-sized husiness market. A second wave of services is also expected following the IIK government's award in February of five additional radio access operating licences to a wide range of companies, spanning the scale from BT to start-up company RadioTel.

The government intends these new licences to serve different markets but there is bound to be some overlap because all will be concentrating on either the residential or small to medium-sized business markets.

Large businesses in central husiness districts were the first to benefit from access to more advanced services following the liberalisation of the UK market. The arrival of new radio-based services will make these advanced services available to small and medium-sized businesses as well as to domestic consumers at a reasonable

Three licences have been awarded in the 10 GHz range of the spectrum for the provisioo of advanced high-handwidth Integrated Services Digital Network (ISDN) services such as Media Communications, plans high-speed Internet access, vidbased system will perform like - ulation of England and Wales - to launch a fixed wireless ser - co-conferencing, video security

applications and other digital voice and data services. The licences were awarded to Mercury, National Transcommunications Limited (NTL) and a joint bid from Ionica and Scottish Telecom, Commercial services could be launched as early as this year.

lonica's reason for obtaining this licence, says Nigel Playford, was to complement its 3.4 GHz licence, allowing lonica to meet demand for digital services requiring bandwidths greater than basic rate ISDN, such as high-speed Internet access and video telephony. Although the 10 GHz licences are for the provision of more advanced technical services. they, too, will be targeted at the small and medium-sized

Two regional licences have also been allocated in the 2 GHz section of the spectrum for the purpose of extending telecoms services to customers living in remote rural areas in Scotland, Wales and northern England. These licences were awarded

business markets.

to BT and start-up company RadioTel. BT bopes to launch services possibly later this year and RadioTel' plans to launch its services in 1997. Their services will be aimed at domestic users or small busi-

Deadline for digital

The operators have already acted to discourage new subscribers to the analogue networks

The government's strategy paper on future use of the Britain's mobile phone spectrum, published at the end of February, set Cellnat and Vodafone a deadline for com-pletion of their transition from analogue to digital technology. The government said it would like to see the two carriers move all their customers on to their more efficient digital networks, based on tha GSM standard, hy the year 2005, leaving capacity on the analogue networks, based on the Tacs-900 standard, free for the government to re-allocate for other

Cellnet and Vodafone have already started the task of mig-rating the 2m customers each has on their analogue networks onto their less-populated digital networks. Cellnet bas about 300,000 GSM customers compared to 450,000 customers

for Vodafone. The two cellular operators have already acted to discourage new subscribers joining their analogue networks by making the cost of bandsets and tariff packagaa more attractive on their digital networks. This process, which only really started to take effect in 1995, involved increasing subsidies on digital handsets to make them similar in price, or cheaper, than analogue models. It also meant only introducing new tariffs onto the GSM network and phasing out less popular analogue-only packages. The result is that the majority of new customers joining their networks now head for the GSM service.

The two companies are also persuading existing analogue customers to move over to digital. Initially, they have targeted business users, many of whom joined the analogue networks in the years following their launch in 1985. Cellnet and Vodasone only launched their GSM services in the early 1990s and they did not begin promoting them seriously until late in 1994.

Business users represent

COMPONENTS

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users on each of the networks. whila the rest are consumers, or low-users, who make fewer calls over the network than business users. It is a higher priority to move these trafficgenerating users over to the higher capacity digital network since, according to Vodafone's calculations, a hosmess user uses five times as much capac-

ity as a domestic consumer. The strategy used by Cellnet and Vodafone'a service providers, the direct sales organisations that retail the operators' services, is to approach companies, which might have hundreds of phones on their account, when thair existing contracts for analogue phones is dua to terminate. These companies are offered an attractive deal to switch over to the digi-tal network which, compared to analogue technology, offers better security and can be used in all European countries.

The reduction in the abso-

lute number of users on the analogue networks, which is likely to happen this year, frees the operators to begin converting analogue to digital capacity. The operators have started this process in several hig UK cities since the beginning of the year. "It is very tricky from a radio planning point of view," says Mr Mike Tiplady, Cellnet's technical director. Ha has to ensure that Cellnet only reduces analogue capacity at a speed that is less than the rate of migration to the GSM network. Otherwise analogue users might perceive a poorer quality of service. Both operators are also building their GSM networks so that coverage on them is equal to the more established analogue networks. Both have so far spent between £450m and £500m on their networks and expect to invest an additional £500m-£600m by 1998. The operators have other tricks for squeezing more capacity out of their GSM networks in the future, such as splitting existing cells (the cellular coverage area) in two. In addition, Cellnet recently started to test new microcellular equipment, developed by US manufacturer Motorola, which creates extra capacity in congested areas. t was originally thought that the two analogue networks

750,000 customers between them. The present total of 4m customers was just unthinkable a few years ago. The government's spectrum review also offered some belo to the operators by opening up the possibility of allocating Vodafone and Cellnet spare capacity in the ISOOMHz part of the spectrum, next to where rival operators Mercury One-2-One and Orange have been allocated frequencies Vodafone and Cellnet which

currently operate in the

900MHz part of the spectrum.

will be allowed to use part of

the 1800MHz spectrum in return for developing "new and innovative" services. Both are likely to offer to use the spectrum to improve coverage inside buildings for corporate users. With dual-mode handsets that work at both 900MHz and 1800MHz, customers could have a wireless phone for use in the office as well as a standard cellular to use on the move. The measures mentioned above should mean that by the turn of the century there will be capacity for a much higger number of cellular subscribers than at present. Currently, Celinet and Voda-fone each have sufficient capacity for about 3.5m users on both their analogue and digital networks. By 2000-2005, they are likely to have capacity for 14m GSM users, leaving the analogue network, which would by this time be winding down, with capacity for 1.5m users.Seasoned industry observers believe neither operator runs a serious risk of running out of capacity. If anything, the operators run a greater risk from losing customers than having insuffi-

newer operators Mercury One-2-One and Orange, hoth aware of the more established operators' migration processes, and ready to pounce. Both are attempting to persuade analogue users about to move over to their digital networks, based on the DCS-1800 standard. rather than stay with their existing operators. The fact that half of Orange's new customers are former customers of Cellnet or Vodafone should act as a warning about the real

cient capacity to serve them.

The danger comes from

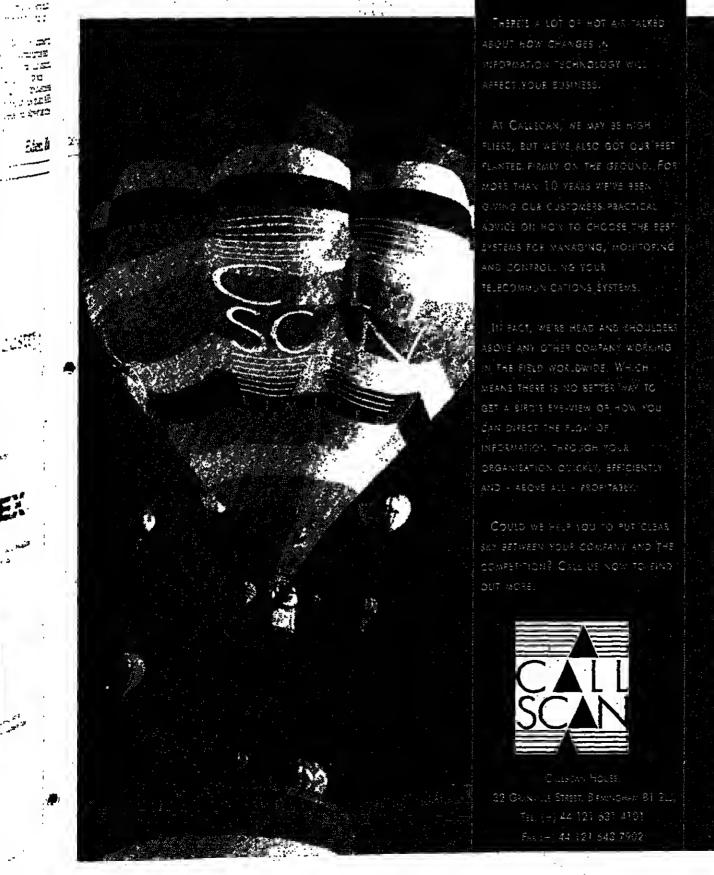
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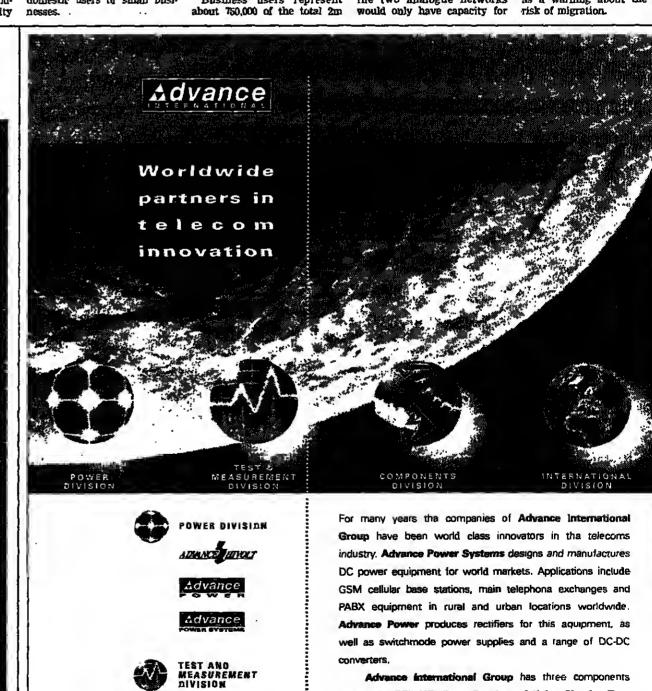
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Numerous fresh opportunities

A telepresence application can provide a fixed link between a remote rural health centre or community hospital and a large teaching hospital

New links between bitherto disparate technologies are creating numerous new busi-ness opportunities in telecom-

Probably hest known is BT's interactive multimedia trial in Colcbester which is presently testing the delivery of video-on-demand, teleshopping, telebanking, and other information and education services over both fibre optic and copper cable networks to residen-tial customers. But such classic information superhighway" multimedia services are only one aspect of new developments in the communications industry.

One only needs to look at

work being carried by BT at its research and development facility at Martiesham Heath near ipswich to get a feel for the way things are going. With more than 3,000 employees, the laboratory complex is the largest concentration of communications, electronics and software specialists in the UK and is at the forefront of UK communications technology R&D.

According to Mr lan Pearson. at the BT Centre for Human Communications, at Martlesbam, certain key themes to developments can already be identified. Technological developments over the next few years are likely to be characterised firstly by a continuing emphasis on increasing



A working prototype of BT's 'Office on the Arm' worn by BT director and man of the Year Patricia Vaz. The console includes a

mobility; secondly by a shift from voice communications to visual applications such as videoconferencing, interactive television and other forms of multimedia; and thirdly on controlling machines through

BT's Camnet telepresence system is a clever piece of convergent technology already in production and illustrating some of these characteristics. The system allows a distant expert to look over the shoulder of a technician or medical worker, seeing and hearing what the person on the spot

experiences in 3D if required and enabling the observer to give instant advice. Paramedics wearing the

headgear at the scene of a crasb, for example, can be linked by satellite to a consultant at a distant bospital who can give an instant diagnosis. A telepresence application

can also provide a fixed link between a remote rural health centre or community hospital and a large teaching hospital. BT has carried out trials on such systems, experimenting with surrogate surgery and remote foetal scanning over

existing ISDN links and they are now being made commercially available.

ause there is still a onethird of a second coding delay over existing ISDN high-speed data links, a surgeon cannot yet issue commands such as keep cutting till I say stop". However, once broadband ATM networks become more generally available it will be possible to support real-time video without delays or image degra-

Once this is in place, more advance applications such as robotic surgery will become a possibility, with a surgeon wearing virtual reality glasses in one location performing an

Advanced videoconferencing techniques also bave other uses. BT is using its expertise video coding skills to develop systems which will allow users to share a computer-generated "virtual workce", within which they can co-operate at a distance on the same piece of text or design. Other systems under development include a videoconferencing system which for the first time allows real eye contact with the person at the other end of the line

Another example of converging technologies is the "office on the arm" - a combination of laptop computer, digital cellular phone, mobile link to the Internet and a voice recognition system all squeezed into a wearable package - developed at Martlesham Heath. A working demonstration model already does many of the

things it is meant to do. The technology to make the office on the arm commercially viable is to a large extent already available and new applications, videophone, for example, will soon become pos-

Soma technology issues such as poor screen resolution and high energy consumption, still need to be sorted out but according to Mr Roger Payne, BT technology integration spe-cialist, a fully-functioning model should be available in four to five years.

One way of sorting out the roblem of power-hungry applications, says Mr Payne, might be to transfer some of the intelligence across the network. The office on the arm could be linked over a radio network to a PC back at the main office where most of the intelligence would remain - and where most of the power consump tion would take place.

For the office on the arm to be viable it would not necessarily require a high bandwidth ISDN link to the main office from everywhere in the country. For example, the existing digital cellular GSM network could provide narrowband capabilities nationally but localised high handwidth ISDN connections could be provided at key points such as railway stations, airports or motorway service stations to permit the transmission of handwidth-hungry video or

data services. A key difference between the office on the arm and current day laptop will be the absence of a keyboard. At present, a finger pad allows the user to move the cursor around on the screen, but with time, speech recognition software will allow more direct control.

Rapid technological developments are taking place in speech recognition. BT already has a trial corporate directory service that allows users to access telephone numbers by

asking for someone by name. It is also demonstrating a telephone catalogue service that allows users to choose the phone they want hy talking directly to the catalogue withont any buman intervention. These products could be

released on the market as early

two or three years from now. Speech recognition and voice synthesis advances are seen as particularly important by Professor Peter Cochrane BT's head of advanced research, who already has a system in his car that allows him to access e-mail messages hy volce. Being able to talk to your phone or television and them respond to you in kind will be a key advance. It will allow more efficient information management and reduce delays. But most impor-

tantly, as far as Cochrane is

concerned, it will make technology more user-friendly. Mr Cochrane points out that people have to want to adopt new products if they are to be successful, and reducing "tech-

nophobia" is an essectial ingredient. Talking your way through a telebanking transac-Opportunities and

will be limitless tion without having to resort to a keyboard is likely to make

it a much more acceptable

applications

proposition. This kind of interaction is only one step away from a more advanced form of artificial intelligence. Imagine being

able to ask a television or PC to find out about times of aircraft flights - and it will be able to set up an agent at the airport computer to watch out for any delays. Similarly, when your car breaks down, it will automatically send a message to the nearest garage to tell it what has happened

This may atill be a few years away, but more rudimentary programmes are already avail-able which allow e-mail, for example, to be untomatically redirected to a different location on a network.

Many of these applications may seem to have very little in common with traditional telecommunications, but all are dependent on communications links to support them. The communications network will bold them all together but the applications will be limitless

■ Other licensed operators: by Eden Zoller

Confidence abounds

The dramatic proliferation of alternative operators points to a buovant, highly competitive market

government review of telecommunications policy in 1991 led to the end of BT and Mercury Communication's cosy dnopoly of fixed line

where demand is

domestic services in the UK. The floodgates were thrown open, and by 1995 some 75 licences had been issued for alternative public telecoms operators. The figure now stands in excess of 150, to say othing of the growing number of international simple resale operators that provide cut-

price long-distance services. This sounds very impressive and is possibly bard to believe given that most people would be hard-pushed to name an alternative to BT and Mercury.

Some might be aware that a growing number of cable television operators offer public voice telephony services. Others might recall some of larger "pure" telephony operators such as long-distance carrier Energis which has made the most visible efforts to draw attention to its services with a television advertising campaign which ran last year. But for most, the vast majority of alternative operators remain an obscure, unknown quantity. The most obvious reason for this lack of general awareness is that with the exception of the cable television operators, the vast majority of alternative operators in the UK focus exclusively on the husiness community where the usual method of targeting customers is through a direct sales force.

The business community promises the largest rewards for alternative operators. Corporate customers are traditionally high spenders with a large proportion of international calls and a healthy appetite for high-bandwidth, value-added services which produce a higher revenue per subscriber than is available from the resi-

dential market. It is all but impossible for new entrants to compete head-on with BT in the residential market where it has direct links to every home and where prices are already com-petitive - and becoming more so with a range of special discount packages

Mercury tried to its detriment to mimic BT in the residential market but has shifted its focus to the business sector. Energis now appears to be doing the same.

Clearly the business sector is price-sensitive, but the returns are better and operators do not have to spend millions huilding up the high-profile brand names required in the consumer market.

The alternative opera able to undercut BT in the tively low cost base, but more particularly because they have state-of-the-art, intelligent networks that are ideally suited to deliver the type of value-added services most valued by corporate sector users, such as videoconferencing, high-speed date transmission, call-bandling facilities and premium rate services

The alternative operators are not constrained by legacy issues when it comes to tech noiogy and most have optical tibre networks with synchronous digital hierarchy (SDH) capabilities. Some even boast asynchronous transfer mode (ATM) advanced switching capabilities

The alternative operators most often have a regional focus, and know their local business community well. with standards which BT would find difficult to match.

The comparatively narrow focus of alternative operators, which quite commonly specialise on niche sectors within the business market, means they are also highly skilled in developing tailored applications for a particular customer with pricing structures to suit their requirements. This can range from Lan-to-Lan inter-

Costs can vary quite widely, depending on the individual solution

connection to total facilities management solutions. An example of this specialist,

tailored approach can be seen with many of the contracts won hy regional operator Torch Telecom, a joint venture between Yorkshire Electricity and Kingston Communica tions. Its first contract involved the provision of high capacity links between two teaching hospitals for the

transmission of video images

of operations from operating

theatres to lecture rooms. Torch does not publish a standard price list for its services because costs can vary quite widely, depending on the solution it puts together for a particular customer.

The alternative operators can be broadly divided into those that are facilities-based and those that base services on international simple resale (ISR). Put very simply. ISR operators provide capacity over a network of pradominantly leased lines. In contrast, facilities-based operators have their own switching and transmission capacity, while some have direct links to their ultimate customers and therefore side-step BT's network for the

Notable alternative operators in this category include Colt and MFS which both offer services in the crowed London

Colt and MFS, which are both US backed, have built metropolitan optical fibre

scratch in London. Both have national public telephone operators licences and are looking to expand services in other metropolitan centres in the UK. They have already established similar operations in other European centres such as Frankfurt.

Colt is also looking to expand services by joining forces with other regional operators, and in October last year it signed an interconnection agreement with Scottish Telecom under which the two carriers will jointly provide services between London and Scotland.

Scottish Telecom is an exam ple of a handful of regional operators that started life as the internal telecommunications arm of the UK's regional electricity companies. Another notable operator of this ilk is Norweb Communications in the North West, Such operators have something of a head start in that they can use the existing telecoms infrastructure of their parent companies, and have access to their sales channels, an established customer base, a brand name and market awareness.

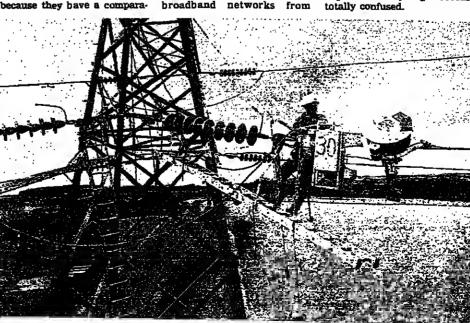
The ISR operators in the UK are almost exclusively focused on providing cut price international services. First Telecom, an ISR operator which started services last May, claims it can offer the cheapest calls available to the US of about 10p a minute at certain times.

It reckons that in general it can cut the average international BT or Mercury phone bill by about 20-30 per cent. Demand is such that First Telecom bas attracted more than 12,000 snbscribers since its launch nine months ago. ISR operators traditionally target business customers with international services. although a growing number are turning their attention to the domestic long-distance market. This goes against the received wisdom which says the UK market cannot generate the volumes of calls which ISR operators need to make the thinnest of margins on domestic long-distance tariffs.

The line-up includes the UK subsidiary of Swedish national carrier Telia, ACC Long Distance_ Worldcom and News International's Dial 1602 ser-

The fact that ISR operators are prepared to tackle the residential sector is a sure sign of confidence in the market. The next six months will see the debut of yet more alternative operators in the UK, AT&T is on the brink of launching its long-awaited UK operation, while wireless local loop opera-tors Ionica and Liberty and also expected to launch services in the coming months.

The dramatic proliferation of alternative operators in the UK since the end of BT and Mercury's monopoly five years ago points to a huoyant, highly competitive market where demand is strong. Customers choice, flaxibility and lower prices. The only danger perhaps is that they might become





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UK TELECOMMUNICATIONS MARKET VII

The manufacturers: by Joia Shillingford

Movers and shakers

Research indicates that the market for digital exchanges in western Europe will be \$7.9bn in 1996, rising to \$8bn in 1999

Providing the equipment for Britain's fixed-wire and mobile telephony infrastructure is a multi-billion pound industry. But who are the manufacturers and how is their profitability affected by the industry's buy-

The market for fixed telephony equipment tends to be dominated by switching equipment, ench as digital exchanges for routing calls. Usually, whoever supplies the switching equipment, also supplies the associated electronics.

GPT, a joint venture between GEC and Siemens, is one of the eading suppliers of equipment for the UK's fixed telephony infrastructure. It has particular strengths in digital exchanges with its System X

. It also offers SDH (Synchronous Digital Hierarchy), a transmission technique, for non-voice traffic such as video, data and multimedia. "Demand for SDH is growing strongly, according to Mr Ian Rathmell, an industry analyst at Data-

GPT supplies equipment to both BT and Mercury, the two main companies offering fixed telephony in the UK. Other key participants in the European telecoms equipment market include Ericsson, Siemens and Alcatel. US telecoms giant AT&T has a presence in the British Telecom (BT) network. And there is some equipment from Nortel in the Mercury

'Cable television companies offering telephone services over their networks tend to use different supplisrs from BT and Mercury, such as Nokia of Finland. But they do use GPT equipment. The cabling for both standard and cable TV telephony is supplied by companies such as BICC, Pirelli and Alcatel Cable as well as some smaller suppliers.

According to Dataquest researchers, the market for digital exchanges in western

Europe will be \$7.9bn in 1996. rising to \$80n in 1999. The mar-ket for cable transmission - the equipment which connects exchanges together - will amount to \$1.9bn this year and in 1999.

Local loop equipment, which connects the local subscriber to the local exchange, will be worth \$600m in 1996, rising to between \$600m and \$700m in

Leading suppliers of switching equipment to the mobile network operators include Ericsson, Siemens and Nokia. "In the market for mobile phone handsets, Nokia and Motorola are battling it out for

larger pipes through which voice-data can be sent. "Broadband will require a smaller number of larger exchanges," says Mr lan Rathmell, an industry analyst at Dataquest.

Competition in the market for exchanges increased significantly with telecoms privatisation in the 1980s and 1990s. reducing prices. Manufacturers used to make hig profits on telephone exchanges, but now make profits on the software

This means they make their money towards the end of the network upgrading process, because software is a late-cycle purchase. The software for



Dean Eyers, associate director of Dataquest. "Then come Ericsson and NEC." Japanese companies such as NEC, Matsushita and Sony are also increasingly successful in the market for mobile phone handsets. Mobile phones are manufactured all over the world, although the majority are made in the Far East, Components (such as sub-assemblies) for mobiles are made all over the world by s wide variety of

Exchange manufacturers have traditionally faced a buying cycle of feast or famine. Once every 20 years, the fixed network operators would upgrade their networks leading to a buying bonanza.

In the 1960s and 1970s, the upgrade was from mechanical electromechanicsl exchanges. In the 1980s, digital exchanges replaced electromechanical equipment. The next big move will be from digital to

exchanges is typically proprietary rather then "open". It enables telecoms operators (telcos) to offer value-added services, such as voice mail, or

better network management. Telephone companies mainly buy software from telecoms equipment manufacturers. Or they buy exchanges with the software they want built in.

Software sales are critical to the profitability of telecoms equipment suppliers because in the UK the move to digital exchanges is largely complete. For example, more than 70 per cent of BT lines are digital. Some large electromechanical TXE-4 exchanges are still being upgraded but this process will be finished shortly.

Demand for telecoms equipment is, however, coming from newer network operators such as MFS, Colt, AT&T (which phony market), cable TV companies, and fixed-radio-access

based Ionica.
Yet UK demand from these operators is small compared with demand from BT and Mercury at the height of their huv-

ing cycles. "By and large, the UK buy-ing cycle is over," says Mr Jim Ross, telecoms analyst at ABN Amro Hoare Govett.

According to Mr Rathmell: "The trend is for switches and transmission systems to be seen just as boxes (like personal computers). All the facilities are in the software and there is a move towards higher management being included."

Demand is more buoyant in the cellular network market. In the 1980s, equipment was needed for analogue mobile networks: Tacs (Total Access Communications System) in the UK and parts of Europe; NMT 450 and NMT 900 in the Nordic countries; and Amps (Advanced Mobile Phone Sys-

tem) in the US. Now everyone is moving to some form of digital network - typically GSM (Global System for Mobile), or PCN (Personal Communications Network), a variant of GSM. This has led to s new investment

Vodafone, one of two UK cellular network operators offering both analogue and GSM networks, spent £800m-900m on its Tacs network. It is now spending £500m-£600m on GSM. (The figure is lower than before because it already has cellular base station sites which can be shared by GSM transceivers.)

Mr Eyers estimates that the UK market for new cellular network equipment is worth \$2.5bn excluding aerials.

PCN operator Orange finishes its UK network by next year. And within two years British PCN operator Mercury One-2-One will also have done so. By this time, the digital networks of Vodafone and Cellnet (the other UK analogue cellular and GSM operator) should be complete.

It seems likely that, before long, csllular-network equipment makers too will be turning their attention to software. To succeed, they will have to offer software that enables network operators to increase their revenue per subscriber.



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Deutsche Telekom, France Telecom and U.S. company Sprint have now joined forces to create a unique new global communications alliance. For customers who need to operate right around the world, the result will be tailor-made performance of the highest possible quality, on a truly global basis.

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In the words of the U.S.A.'s Forrester Research Institute: "Together, Deutsche Telekom, France Telecom and Sprint form what is probably the strongest alliance in the world." They go on to highlight our common vision, compatible products, virtually complete international coverage and vast combined experience in network technology.

In short, this alliance promises unrivalled professionalism and integrated expertise. Indeed, from the start, some 2,100 specialists in more than 50 countries will be putting their global network skills at the disposal of companies who need to be able to communicate right round the world.

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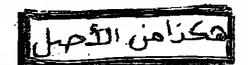
Together with France Telecom, we have set our sights on revolutionising international communications in the world's single largest market place: the European Union. France Telecom can boast outstanding performance and many years' experience in the field of global data services. While, as a serious performer in all the major international markets, Deutsche Telekom offers not only the densest fibre optics network in Europe but also satellite capacity from all the leading operators, not to mention top quality connections, particularly to Eastern Europe. With Sprint joining the partnership, we can now add a truly global dimension to our pioneering work in Europe. As a major international company in its own right, Sprint will contribute both its own domestic networks in the U.S. and its excellent connections in the Pacific Rim.

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Our connections move the world.





DANISH BANKING AND FINANCE

In leaner and meaner shape

The industry has emerged from the recession and seems well-placed to take on Nordic rivals. This survey was written by Hilary Barnes

he Danish banking and finance industry has emerged from the economic and financial turbulence which swept through the Nordic countries in the early 1990s in meaner and leaner shape. Earnings in 1995 were better than at any time for the past 10 years.

Howsver, Danish bankers insistently point out that the crisis in Denmark was not on the same scale as it was in the other Nordic countries. No major bank collapsed. No state money or promise of state money was necessary to prevent collapse, although many smaller and aome medium-sized institutions disappeared, most of them to be rescued by stronger colleagues within the industry.

In the meantime, profound changes have taken place in the financial services industry as a whole. There has been a big shake-out in insurance. The big banks have emerged as important participants in the mortgage credit and insurance markets, turning them, accord-

Loss provisions

er komunisk oftgemen

Figures in DKr bn

ing to Mr Thorleif Krarup, chairman of the Danish Bankers' Association and chief executive of Unidanmark, into true universal banks in the central European tradition.

The past year has also seen several other landmark developments in the financial services sector. Among these, the most important are:

The completion of the shake-

out in the insurance industry, which began in 1992-93, when the country's two largest insurers at the time, Baltica and Hafnia, collapsed.

Hainia was bought up by Codan, the Danish company controlled by the UK's Sun Alliance. Baltica was rescued by Den Danske Bank, which also, although this was not the bank's intention, ended up owning Baltica. Last year, however, it sold off most of Baltica's accident and all of its commercial insurance to Tryg (renamed Tryg Baltica), but Danske retained the life and pension division, Danica, and the accident business of Danica's life and pension custom-

A third large bank, big enough to offer serious competition to the existing big two, Den Danske Bank and Unidanmark, was created through the merger of Bikuben, the flagship of the savings bank movement, and GiroBank to form BG Bank. BG Bank is closely allied through equity cross-holdings to Topdanmark, the

The Big Three Banks' results in 1995

Danske Bank

6.03

Insurance company, and Nykredit, the mortgage credit institution.

The two higgest banks in Denmark are setting up branches in other Nordic countries, defining the Nordic area as part of their future "domestic" market. This follows the example of the other large Nordic banks, which are all invading each other's patches.

• A major reform of the Copenhagen Stock Exchange, a consequence of the implementation of the EU's Investment Services Directive, was put into place at the beginning of this year.

The recovery in the fortunes of the banking industry – paralleled in the mortgage credit and insurance industry as well – has been sustained by the recovery in the Danish economy itself. After six years of near-stagnation, a rapid improvement began in mid-1993, and the growth in real gross domestic product shot to 4.4 per cent in 1994, followed by about 3.5 per cent in 1995.

As a recent OECD report on Denmark noted, the recovery is more soundly based this time than was the 1980s recovery. Inflation has remained low, at only about 2 per cent in 1995; the current account of the balance of payments is in comfortable surplus; and the general government budget deficit last year, at DKr17bn, was about 1.5 per cent of GDP, according to the most recent

BG Bank

0.73

1.88 1.68



The two big Danish banks - Den Danske Bank is the largest - have entered the mortgage credit and insurance markets, becoming universal banks in the European tradition

estimates by the government. The krone, which participates in the European exchange rate mechanism, was battered by the events which led to the collapse of the ERM in 1993, but the exchange rate has again been stabilised against the D-mark, and last year there was a de facto appre ciation of the trade-weighted exchange rate by some 4 per cent, interest rates fell sharply through 1995, in line with developments elsewbere in Europe, and this spring the discount rate has been lowered to 3.75 per cent, its lowest since

Unfortunately for the banks, falling interest rates have not so far done much for bank lending. However, after declining for several years, lenging rose by about 3.6 per cent in 1995. That the banks emerged

from last year with their earnings mucb enhanced, despite weak demand for credit, was due primarily to two factors: gains in the value of their portfolio of bonds and shares and a further decline in bad loss provisions from the exceptionally high levels reached in 1992-93.

nder Danish account-

ing law, a change in the value of a securities portfolio – whether a gain or a loss – is entered into the profit and loss account fully in the year in which it takes place. (The same goes for all property owned by the banks, which must be booked at the estimated market price at the end of each year.) For this reason, the bottom line figures have a tendency to show extreme variations in accordance with the state of the

bond and share markets. The banks have, on the other hand, nearly all reported lower net financial income (excluding the valuation gains) in 1995, which is a cause of concern to the banks as well as to Mr Eigil Molgaard, the bead of the Finance Industry Supervisory

Authority.
"The banks are not earning as much as they should from their basic operations, and this is a problem," he says. Denmark is a many-banked country, with around 150 banks, savings banks and co-operative banks, most of them very small. Competition is keen, and has been driven by the establishment of an array of niche banks, including some which offer simplified services and low costs. Traditional banks are also facing competition from banks established by

the insurance companies and from international competition, including Nordic rivals. Margins on business with

larger companies are now particularly thin, the banks complain. Small, one-town banks, on the other hand, whose customers are mainly small businesses and private individuals, continue to do well and are gaining market share. The biggest banks are meeting the challenge by diversifying into mortgage credit and insurance services, a strategy which was commended in a recent report on the Danish banking industry by Moody's, the rating

On the costs side, the banking sector shed 7,000 employees between 1989 and 1995. The number of bank branches declined from 3,250 to 2,225, and the number of customers

per bank branch rose from 1,580 to 2,350, according to figures supplied by Unidanmark. The main force for change was the 1990 merger of the six largest banks into today's two largest banks, Danske and Unidanmark. This set the scene for a rapid rationalisation of the branch structure, and is also reflected in the market share of the two largest banks, which is now 54 per cent compared

The 1989 mergers and subsequent developments have left the large banks in a strong position, both domestically and hy comparison with their international counterparts. A study of the ratio of costs to income among the largest European banks by UBS puts the Danish banks at the top end of the list, with only the Swedish banks ahead of them.

with 28 per cent in 1989.

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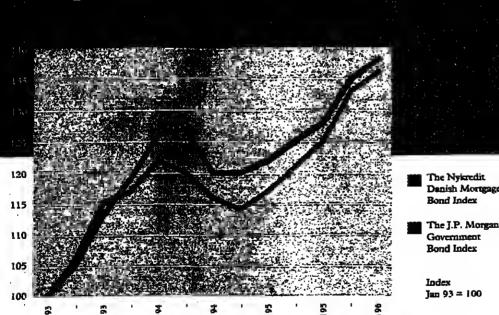
Unidanmark.

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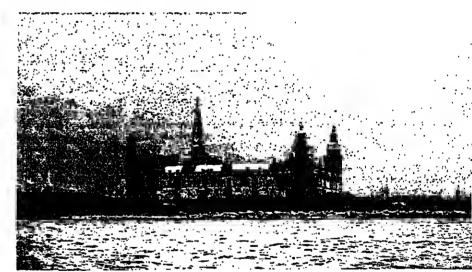
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Nybrogade 12, DK-1203 Copenhagen K, Denmark.

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Den Danske Bank

dust than dirt

Newspaper leaks have put the bank in the spotlight. But it has emerged virtually unscathed

Den Danske Bank, the country's higgest, has been put through the wringer by the local media over the past few weeks, hut Mr Knud Sorensen, the bank's chief executive, does not look like a worried man. Perhaps that is because be has just presented one of the hest bottom-line resulis that the bank has ever had. Interviewed in his office in the 18th century mansion in the heart of Copenbagen. where the bank bas its beadquarters, Mr Sorensen admitted that a series of articles in the respected national newspaper, Jyllands Posten, last "has scratched onr image," especially "with those Mr and Mrs Hansens who only read the headlines".

The articles were sufficiently sensational to cause a brief finttering among the country's politicians, too, bot soma initial calls for new controls and more stringent regulations on the banks quickly sonttered oot once the politicians looked more closely at the newspaper's revelations.

The newspaper somehow obtained a pile of interoal documents from the bank, including the minutes of supervisory hoard meetings. This enabled the paper to put its finger on some sensitive issues and offered some intriguing Insights Into the internal working of the bank. But if the source of the leaks (who, says Danske, can only be either a senior official or a former senior official of the hank) boped to do serious damage to the bank, the person did not succeed. He (or sbc) stirred up some dust, but no real dirt. and the bank put up a stout defence in o dctailed, 12-page

reply to the critical articles. The hurden of the articles was that Den Danske Bank, in a number of cases, acted in confilct with good banking practice, unethically, and possibly also in contravention of banking law.

The articles revealed that the bank gave A.P. Moller, the Danish sblpping group, an "unlimited guarantec" in 1989 for damage claims ngainst eight ships. The bank was said to have run nnacceptable risks hy providing large loans to two large insurance groups in 1992, when they were engaged

structure of their industry.

Most seriously of all, the newspaper alleged, the bank seemed to have withbold information about the state of one of these insurers, Hafnia, in connection with a DKr1.9hn new share issue by Hafuia in July 1992, a month before Hafnia went into receiversbip.

Documents from the hank showed that there was a vociferons internal discussion within the hank about internal security controls in the bank's foreign exchange and securities dealing departments, which led Jyllands Posten to wonder wbether the bank was the model of safe and secure banking which most Danes supposed it to be.

Finally, when the guarantee to A.P. Moller was given, the miontes of a supervisory board meeting showed that Mr Poul Svanholm, chairman of the hoard, had participated in the discussions, though he was a member of one of the main boards in the A.P. Moller group. This was a hreach of the rule by which board members may not he present when issues involving the interests of companies in which they are personally involved are under discussion. To this lat-

It was the only bank strong enough to shoulder this responsibility

ter point, the bank responded by announcing that rule and practice would be tightened up to ensure that there would be oo similar contravention.

This was the only point that Danske conceded to its critics. It rejected the rest as unfounded. The "unlimited guarantee" was a formality, demanded by the huyer in a sale and lease-hack deal. It covered eight vessels, of which five were offshore oil platform supply vessels, one a roll-on, roll-off freighter and two were medium-sized product tankers. They were not crude-oil carrying supertankers, they did not sail in US waters; and they were fully insured. The guarantee was unusual enough to have aroused the interest of the Finance Industry Supervisory Authority, but the supervisors did not demur when the

guarantee was hooked at a value of £1 by the bank's London branch. The newspaper's criticism of the Hainia share issue caused a bevy of lawyers to declare that the articles were damaging enough to form the hasis for a claim for compensation

by investors, but the marmurs against the bank did not long survive its detailed refutation of the allegations. The lrony of the attack on the bank in connection with the problems at Hafnia and Hafnia's domestic combatant, Baltlea, was that Danske Bank was heavily involved in preventing the collapse of the two

into a fully-fledged crisis for the whole financial service

sector in 1992. It was the only bank strong enough to shoulder this responsibility. Had the newspaper been able to show that Danske had flonted the advice of the supervisory anthority, or kept the supervisors in the dark, there would have been a genuine scandal, but this was not the case, and Mr Eigil Molgaard, bead of the supervisory anthority, said in a televised Interview that Danske was, seeo from his seat, the "perfect bank", "Surely, no one can be perfect?" asked the interviewer, "Yes, they can, relatively speaking," count-

ered Mr Molgaard. One of the consequences of the crisis at Hafnia and Baltica was that Danske took effective control of Baltica in 1993. It was not, at the time, the bank's intention to hold onto Baltica, but for various reasons it was not possible to

Figally, last year Baltica was broken up. The life assurance group owned by Baltica, known as Danica, was retained by Danske, together with the accident insurance husiness of Danica's life and pension customers. The remainder of the business, including the industrial and commercial insurance, was sold to the former mutual gronp, Tryg, known now as Tryg Baltica, which emerged as the country's largest accident insurance group, though Danica is bigger in life assurance. Danica is not consoli-

If it were, Mr Sorensen noted when he presented the 1995 accounts, the group would have total assets close to DKr500bn. With Its insurance business and rapidly expanding mortgage credit subsidiary, Danske's strategy in the domestic market is wellestablished. It is also expanding into the Nordic markets hy setting up in the Nordic capi-

dated into Danske Bank.

co-operation with a large number of Swedish companies, but we want to expand the circle go a spade's depth deeper," says Mr Sorensen. Meanwhile, stiff competition is holding down earnings from basic financial business, which

There will be no further staff cuts involving redundancies, as there have been over the past few years, says Mr Sorensen, but over time he can see employment falling from just over 11,500 to 10,000. His aim, be says, is gradually to improve the ratio of normal operating income (DKr10.37bn in 1995) to costs (DKr6.32hn) from last year's 1.60 to 2.00, helped by new technology, the growth of new business and

Concern at weak demand

The government expects a secondhalf recovery this year. But it may be disappointed

A recent OECD report on Denmark summed up the state of the economy neatly when it said that the macroeconomic fundamentals looked sound, but the microeconomic under-

pinnings were less satisfactory.

The latter comment is a

cause for longer-term concern The immediate worry is that demand may weaken significantly in 1996 after two years of satisfactory GDP growth. The GDP growth rate was 4.4

per cent in 1994 and about 25 per cent in 1995 (the first fullvear official estimates were still awaited at the time of

Most of the indicators. including exports, industrial production, and employment. show that the economy has stagnated since the early summer of last year, and neither the domestic outlook nor the outlook in Europe points to a strong rebound this year. At the end of last year the government forecast a GDP growth rate in 1996 of about 3 per cent. but Unidanmark's economists this month predicted a growth rate of only 1.75 per cent for

However, reductions in short-term interest rates - the discount rate was reduced to 3.75 per cent on March 8, its lowest level since 1946 encourage the government to believe that the economy will recover again in the second half of 1996.

Another current concero is how Denmark will handle the situation if the Emu Phase 3. with a common currency, is implemented according to

plan. Denmark is in the paradoxical situation that on pres-eot form it will quite easily meet the Maastricht convergence criteria for participation Phase 3, hut the country has obtained an opt-out, and cannot opt in without bolding a referendum, sure to be highly-

charged, on the issue. The government's official position is that if and when Emu Phase 3 is implemented, Denmark must ohtain an agreement with the participating countries for a mechanism which can replace the present European exchange rate mechanism for those countries which cannot or do not wish to join the Emu. But Professor Niels Thygesen, the Danish monetary policy expert who was one of the architects of the Emu proposal, has pointed out that Denmark may find that the other non-participating countries, among them the UK and Sweden, have no interest in an alternative ERM arrange

For the time being, in any case, Denmark's future relationship with an eventual common currency area is unre-

Meanwhile, many of the fundamental indicators show the economy to be in a sound condition. Inflation is about 2 per cent; the trade and current balance of payments accounts are in substantial surplus; and the general government hudget deficit in 1995 was about 1.5 per cent of GDP. The OECD also noted that, in contrast to the recovery which began in 1982, household and corporate financial halances bave remained healthy, with domestic demand growth based on strong productivity and earn-

ings growth. One of the indicators which looks less satisfactory is unemployment. The official figure has fallen to 9.1 per cent at the latesl (seasonally adjusted) count for January from 12 per cent two years ago. Unfortunately, the unemployment fig-ure is not a reliable indicator of the state of the economy, the reason being that tt is strongly influenced hy a variety of schemes which withdraw people from the labour market. including a generous programme which enables both the employed and the unemployed to "go on leave" for between six months and a year while receiving 80 per cent of the maximum unemployment

This extremely popular temporarily withdraws about 2.5 per cent of the workforce from the labour market.

the OECD estimates. In the final quarter of last year, tha leave-from-work programme produced a strange paradox: hoth employment and unemployment were falling. The official Statistical Office now publishes quarterly fig-

ures which give a broader overview of the unemployment situation. To the official unemployment figure it adds those who are participating in labour market "activation" programmes of one sort or been withdrawn from the labour market through leaveearly retirement. The total in

another and those who have from-work programmes and the third quarter came to 18.9 per cent of the labour force, and since this figure does not

who have taken early retirement, it can be argued that the real total is even higher. All in all, at any given moment almost one person in every five of working age will not be working but will be liv-

ing off social security of one category or another. When retired people of over 67 are added to the total, more than two in five people are financed through the social security sys. tem. Altogether, the OECD estimates, 57 per cent of the adult population received some form of social security in 1993 (some of them, however, receiving rent subsidies or other hand-outs which are also paid to people in work). There is also a large segment

of the population employed in the government sector, which accounts for about 38 per cent of employment, so that for every person working in the private sector, there are 1.7 persons either working in the government sector or living on social security. Only one other country, Sweden, has a higher ratio at 1:1.8.

The country's productive export industries, including a significant food-exporting agricultural sector, and the popula-tion's readiness to pay high taxes (57 per cent of GDP at factor cost in 1992, according to the OECD), are currently sustaining an economy which is stable, if not very dynamic, But it is perhaps not surprising that the OECD report strongly urged the government to take measures that would encourage people to seek off jobs rather than rely on social security, expressed doubts about the sustainability as well as the efficiency of the present welfare system, and warned of "claar danger of welfare dependency becoming



Some 1,900 employees work in R&D activities at Novo Nordisk's laboratories in Bagsvaerd. But for every 10 people working in the private

■ The supervisory authority

There's no need to crack the whip

Why the banking sector's problems as those of other Nordic countries

The borsewhip hanging in the office of Mr Eigil Molgaard, who will be retiring this year after 14 years as head of the Finance Industry Supervisory Authority, bas absolutely no symbolic significance, be insists. As for the hand grenade which decorates a shelf its uses may come to mind in moments of extreme provocation, but, be points out, it is safely disarmed.

Moments of stress and frustration are something that Mr Molgaard has had to live with. In his time as chief supervisor, he has belped to close 102 banks and other financial institutions and treated another 35 for acute crises. Nearly all of this took place in the period 1987-93, when a long recession. weak demand for credit and falling asset prices took a

other Nordic countries. Mr

Molgaard does not hesitate to

ing activities of the supervi-

sors, which have always acted

on the principle that preven-

As a result of the supervi-

talisation and adequate loss provisions, no major bank col-

lapsed. "They were able to take

the losses on their reserves and not their equity capital," be says. Banks which were

closed were, with only a hand-

ful of exceptions, taken over by stronger colleagues, operations in which the supervisors were

invariably involved, though in

a few cases the assistance of

the government and the cen-

tral bank was also required before things fell into place.

There have been two or three

cases of actual bankruptcies.

hut only in small banks. Share-

holders and bondholders have

in several cases lost their

investments, but depositors

have not. They are protected

hy a depositor guarantee sys-

tem, which is law-hased hut

financed by the banks collec-

tively. The guarantee covers

deposits up to a value of

The serious problems in the

financial sector in the early

1990s have produced a number

of changes, some implemented

and some still to come, in the

supervisory regime.

DKr250.000.

ors' insistence on strong capi-

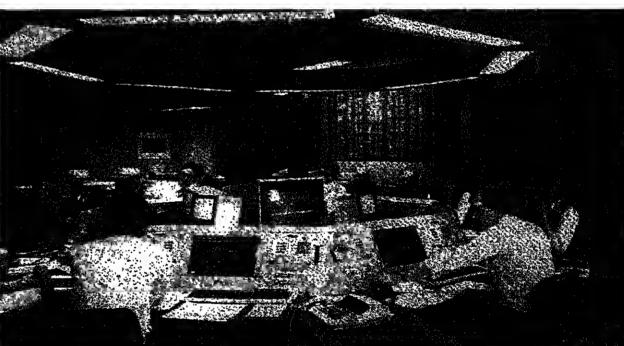
tion is better than cure.

ascribe this to the long-stand-

"We already have close beavy toll. Banks are only as healthy as their customers," Mr Mol-gaard says. He calculates that institutions with an accumulated balance sheet total of about DKr800bn, or one third of the total assets of the financial services sector, required places the focus on costs. the attention of the supervisors during the six-year recession period. The problems were contained. They never became as serious as those which bit

economic good sense.

were not as serious



Nixdorf's 8864 banking terminal system at work in Privatbanken, part of Unidanmark, in Cocenhager

Less happily for all concerned, a bandful of the rescue operations led to political ructions. The scourge of the supervisors is Mrs Kirsten Jacobsen, a member of the Folketing for the populist right-wing Progress party, who blames every "crisis, crash and scandal" in the finance services industry over the past few years on the supervisors, "who did not supervise properly and did not take prevantive action in time," to quote one of her recent outbursts.

Politically-instigatad inquiries are now taking up a lot of the supervisory authority's staffs' time. It is ironic, Mr Molgaard notes, that this should be his fate and that of his staff, while not a word is heard about the directors

Abroad, the authority is respected but it has been hit by political attacks

responsible for running banks

into the ground.

In the case which has caused most of the trouble, when a small Jutland bank called Himmerlandsbank was taken over hy Sparekassen Nordjylland in August 1994. ministers, civil servants and the supervisors came under fire for baving stretched the legal elastic

regarding a tax write-off for

Sparekassen Nordjylland too

The Danish supervisors have always enjoyed the respect not only of the Danish banks, but of their peers abroad, and this has not changed. A report by a committee of oeutral experts on the financial services industry last year had only praise

for the supervisors, Mr Molgaard notes. Abroad, the Danish Supervisory Authority which is unusual in that it covers the entire financial services industry from banks through insurance and mortgage credit to the securities markets - was one of balf a dozen at which the Bank of England looked carefully in the process of assessing its own supervisory performance in the wake of the Barings collapse.

Mr Molgaard helieves that his institution has retained the respect of the banks, hut the political attacks "may have damaged us with the press and public, and this is something we are very sorry ahout". Mr Thorkil Krarup, chalrman of the Bankers' Association, backs Mr Molgaard against the political critics. "They ought to give credit to the supervisory authority for doing an excel-

lent job," he says.

The means available for assisting troubled banks have already been improved in several ways, while legislation is under way which will make further improvements, as well as enhancing the role of the supervisors. An important change, made in 1994, enables the Deposit Guarantee Fund to use its resources to assist in the rescue of a hank if the costs to the fund of doing so will be less than that of bailing out depositors if the bank is liquidated. This option was in fact used by the fund in the case of a small bank last year.

The Danish Bankers' Association and the supervisors have also co-operated in the initiation of a key figures self-assessment system, which is designed to strengthen the individual bank's awareness of its risks and potential weaknesses. The supervisors provide average figures for the sector, which the banks can

measure their performance against, but it is up to the individual bank to decide whether to publish its own key figures.

If a bank does publish the

figures, it must do so continuously. That is, it is not allowed to suspend publication if the figures become less favourable. Of the larger banks, only Jyske Bank has so far chosen publication. Changes under discussion in the Folketing (parllament) will allow the supervisors to order a payments suspension (a kind of Chapter 11 measure) instead of immediate compulsory liquidation, giving a breathing space

to consider rescue models. The supervisors will also be given the financial and staff resources needed for their extended supervisory functions, says Mr Molgaard. These

activities will include visits to the foreign branches of Danish banks, which hold around 30 per cent of the total assets of the hanks; follow-np inspections, to ensure that recommendations made by the super inspection reports, which take place at three-year intervals. bave been implemented; and more frequent inspections.

Mr Molgaard's valedictory advice to the banks before be switches to an advisory joh at the Ministry for Business and Industry in July, is: "Stay vigi lant, and don't give easy credit or go soft on provisions policy just because earnings improved in 1995. It is in the good times that the mistakes are made which lead to problems when times are not so

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Governments bonds. Total assets: Equity:

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Circulating bonds: (Figures as at December 31, 1995)

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DANISH BANKING AND FINANCE III

SDAY MARCH 21 1996

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The minnows are flourishing, while their large rivals are closing branches

Denmark is a country of many banks, although it is nsually only a few large ones which make the naws. There are about 300 of them, including savings and co-operativa banks, many of them tiny vil-

lage banks.
Mr Jan Kondrup, managing director of the association of local banks, which has 120 members, does not expect the situation to change very much

He has some cause for optimism. First, 20 years ago it was widely assumed that the costs of installing information technology alone would eliminate the small banks.

However, while some have disappeared, the small banks still flourish, and it is the large banks whose numbers have declined most dramatically.

Indeed, tha small banks are more than holding their own. In 1994, they achieved a small increase in their lending to the public while that of the seven biggest banks fell by 14.4 per cent. The small banks' average performance was also better on virtually every count than thet of the big banks, including core earnings per krona of costs and return on equity cap-

The small banks increased their market shares in spite of steep increases in bank charges. Core earnings (profits before adjustments for realised and unrealised portfolio losses and extraordinary items) as a return on equity capital last year averaged 18 per cent in the small banks compared with

10 per cent for the big banks. The members of Mr Kondrup'e association bave a market share of loans and deposits of 11-12 per cent, or, measured by equity capital, 16-17 per

Most small banks serve a single town, though some have a wider catchment area. Many have only one or two branches in addition to the main office.

"We have the wind in our sails at the moment," said Mr Kondrup. "The big banks are reducing staff and closing branches. We are not. Our members are opening new branches, and this waa reflected in an increase in the banks' costs last year."

We have the wind in our sails at the moment'

For all the banks, however, the general outlook is much better after several hard years. "We can only be optimistic at the moment. With had loss provisions falling, basic operating profits should be even better in

Mr Kondrup puts the survival of the small banks down to the very Danish way in which the banking industry bas successfully combined co-operation on infrastructure with competition for business.

There is one clearing system for all the banks, it does not only clear cheques. There is a single, national charge card system, the Dankort. The cards are issned by the banks to their customers and can be used in cash dispensers and at retail ontlets all over the country. Card transactions are cleared through the PBS, local banks, which again in bad times as well as good."

which means that a small hank in remotest Jutland gets the sama benefit from the system

as Den Danske Bank. There are three central data processing centres, to one of which all the banks are linked. Bank statements are sent out to customers on behalf of the small banks directly from the data centres. "The common infrastructure is a feature which is unique to the Danish system. It enables the small banks to obtain many of the same economies of scale enjoyed by the bigger banks,"

says Mr Kondrup. There is no bad feeling between the big and the small banks. "There is a good tone between us. It is not as if the big banks are lying in wait to gobble us up," be said. The small banks are, in any case, well protected against bostile take over by their share ownership structures.

Mr Kondrup says that hostile takeovers are "not relevant" to the situation in Denmark. Mergers are invariably effected through voluntary arrangements. The banks also co-operate over education and training and to some extent in

The banks bave a jointlyowned educational centre, which lays on training courses for the small (as well as the blg) banks, which do not have to carry the costs of in-house training programmes.

Among local banks which do not compete locally there are networks for carrying out joint marketing campaigns, by which the costs are sbared. Many of the staff functions which the larger banks must have - market analysis, legal services, lobbying - are carried out on bebalf of the small banks by the association of obtain some of the benefits of

Tha use of local banks ie determined very much by tradition and I don't think it will

ther concentration in the banking industry, but we shall not see any more megabanks," claims Mr Kondrup. Nor does be see the spread of new information technology as a greater threat to the small

change. We may see some fur-

banks than to big ones. "Infor mation technology will advance, and the banks will bave to adapt accordingly." Smallness may even be an advantsge. "We are able to adapt more easily and quickly to a changing aituation than the big banks.

He suggests that the advance of information technology,

economies of scale. The tradition of co-operation

and common infrastructure would not be of much help, of course, if the customers did not choose to use the small banks. "The fact is the cus tomers want us," says Mr Kondrup. He attributes this to the local banks' facility for taking quick decisions, their commitment to local business and their familiarity with the people and businesses they serva.

which will eliminate many jobs still handled manually, could coincide with a counter-movement to give people greater prominence. "Flesb and blood want advice from flesb and blood. For us, closeness to the customer is an advantage. We know the people we are talking to, and for a bank it is very important to know the local customers. Buying bank services is not like buying tea or sugar. What matters is the quality, and quality is what you get when you visit your

bank, which gives you support

Aiming for a bigger base "We bave seen sound development over the past coupla of years and there is no serious risk of banks going down," says Mr Thorleif Kra-

Unidanmark

rup, chief executive at Unidanmark and current chairman of the Bankare' Association, in his headquarters office, a grey concrete edifice, known locally as "the lesert fortress" Mr Krarup came to Unidan-

PROFILE

mark three years ago, after it had slumped into a 1992 loss of DKr466bn as loss provi-sions soared to DKr6.28bn, 4.7 per cent of that year's loans. In 1995 the bank made a DKr2.17bn (\$533m) profit. with provisions down to DKr1.24bn, or just under 1 per cent of loans. He describes the first years

as those "when we bad to roll up our shirt-sleeves. Now we are trying to see whether we are wearing the right shirt." Employment at the bank fell from 13,020 at the end of 1991 to 10,500 today and is expected to drop to 10,000 by the end of 1996. With a satis-

factory 1995 result under its belt, the bank has announced an offensive strategy. It has concluded an agreement with the mntual insurance company, Ostifterne, to form a company in which Unidanmark will hold 60 per cent of the capital to Ostifterne's 40 per cent, to market insurance policies through tha bank's branches. The bank will open a branch in Stockholm this year and plans to open in Helsinki and Oslo later on.

Internal reforms of the way the bank works are also being egies are being followed. Firstly, there is e policy of relieving bank staff, whose main job is face-to-face con-tact with customers, of administrative duties. The second strand is to unify

administrative routines in tha bank's 400 branches. This can be seen as completing the

Thorleif Krarup: "We can become a Nordic player as well as a Danish universal bank

merger of Privathanken, SDS and Andelsbanken, the three banks which pooled their resources to create Unidanmark in 1990.

As chairman of the Danish Bankers' Association as well as chief executive of Unidanmark, Mr Krarup is as happy philoeophising over the future of the banking industry as he is over the progress which his own bank is making. He predicts that the

in mortgage credit and insurance business will tend to enhance the already strong position of the biggest banks.

Within a relatively sbort period, he believes, baif the loan assets of the big banks will be in the form of mortgage credit. As loeses on mortgage credit are much lower than on ordinary banking business, the banks' loan loss provisions will be consistently lower in coming years than they have been in the past and will compare better with the provision ratios of

the continental banks. Tha two big banks are already taking a very snb-stantial share of new mortgage business by exploiting the branch network as a distribution channel for mort. gage products. "The question now is wbether the banks will be able to win a similar market share for insurance," Mr Krarup says. Ha is optimistic. arguing that the costs associated with selling a new policy through a bank branch are a small fraction of the cost to an insurance company of selling through its agents.

Although Denmark came through the crisis of the early 1990s relatively lightly, a number of banks collapsed and had to be taken over by stronger colleagues. Some of these cases ended messily, with losses not only to sharebolders bnt also to bondbolders, though not to depositors. This phase is over, Mr Krarup thinks. He considers that the pressures on the banks, which are without

exception well-capitalised today, will come less from threats to their solvency as from inability to reward

In the past the banks typi-cally had a large number of individual sharebolders, but institutional investors played no significant role. This has changed as pension funds and life assurance companies bave bnilt np positions in tha banks. The institutional towestors will insist on get-ting a decent return. "We won't see banks fail, but we shall see banks being sorted out according to their ability to provide a satisfactory yiald on their equity capital."

Those which cannot live up to investors' expectations will be forced in consolldate or see themselves absorbed by better managed banks, he says, Unidanmark's decision (h) which it is, chronologically at least, following the example of Den Danske Bank) to set up in the Nordic capitals, says Mr Krarup, bas to be seen in the light of the international integration of the financial markets and the problam this poses for large banks in a small market.

"Looking 10 years ahead the problem is that the Danisb market is small. If we are to compete, we must have a bigger base, so we bave defined the Nordic market. with a population of 23m. as our domestic market. We are starting a process by which we can become a Nordic player at the same time as we shall be a Danish universal bank," says Mr Krarup.

Good start for third force

Unlike its two bigger competitors, the bank's strength depends on an

alliance BG Bank is the new name of a third force in Danish banking. formed by the merger of Bikuben and GiroBank, which believes it has sufficient size to be able to compete with the big two, Danske and Unidanmark. However, BG'a assets of about DKr150bn are less than balf Danske's and not much more

But both by virtue of its ownership structure and its business structure, BG Bank is a bank to watch in the next few years. Like its two larger rivals, BG Bank aims to become a universal bank, also offering mortgaga and insurance, but while Danske and Unidanmark own or dominate their own mortgage and insurance companies, BG Bank's concept is based on an alliance, and the strongest part in the alliance is Nykredit, the mortgage credit group.

the equity in BG Bank. It also owns 14 per cent of the equity in Topdanmark, the insurance leg of the alliance, while Top and BG Bank own 10 per cent. in each other. Nykredit's position in the alliance becomes immediately apparent by virtue of its financial power.

Nykredit's equity capital at the and of last year was OKr20.8bn, only slightly less than Danske Bank's. BG Bank's equity ia DKr6.1bn. Nykredit also has substantial holdings in two medium-sized regional banks, 11 per cent in Sydbank, which serves southern Jutland, and 9 per Sparekassen cent in Sparekassen Nordjylland (Spar Nord), serving northern Jutland.

With assets respectively of DKr37bn and DKr19bn, Sydbank and Spar Nord are the

fifth and sixth ranked banks by balance sheet total. These two come in the category of banks which analysts in both Denmark and outside believe will have difficulty in maintaining satisfactory earnings over the next fewyears, on the grounds that they are too small to sustain the costs of being full service banks, but too large to thrive on the customer loyalty which

enables small town banks to



Blame Wind, the board's deputy chairman: "The merger gives us real synergies

Mr Munk Rasmussen replies with a broad grin when one suggests to bim that Nykredit'a shareholding in the three banks has interesting perspectives. "We shall have to aee how things develop," he says. But just in case tha alliance should develop into something more intimate, Nykredit is planning a stock exchange listing, probably in 1997. This will not be to raise capital, but in order to give Nykredit a markat value, which would facilitate a merger with BG Bank - or any other financial servicas

BG Bank's business structure is also interesting. Blku-

ben was the largest of banks already be transacted at post which were, by origin, savings banks (since 1974, banks and savings banks bave come under legislation which does not differentiate between the kinds of business which each may carry out) and has 250branches nationwide.

GiroBank was originally the cash transactions division operating the Post Office's giro transfer system. It continues to manage the giro system for the Post Office, but was hived off



Henrik Thufason, formerly chief executive of Bikuben, is now chief executive of BG Bank

as an independent full-service bank in 1991. "The merger gives us real synergies, and not just benefits arising from rationalisation," says Mr Bjarne Wind, deputy chairman of the executive board.

Most significantly, through the contract between the bank and the Post Office, BG Bank'a customers can conduct banking business at post offices, which means that BG Bank has a total of 1,500 outlets, or three times as many as any other bank. Unlike banks, post offices are

open on Saturday mornings and they open an bour longer than the banks on weekdays. Simple banking business can

offices, but there is more to come. BG plans to open 75 full-service branches at post offices, adopting the sbop-in-sbop principle to differentiate clearly between post office and bank. There are interesting opportunities in

exploiting the customer base of the two hanks as well. "This is a cost-effective way for us to reach post office customers," says Mr Wind. Giro is very well-established in Denmark (and the other Nordic countries), which means that

through the system, BG Bank every business in the country, as well as 500,000 private giro account bolders. On its own, GiroBank built up a substantial portfolio of business customers, but it did not have the resources to give them the attention they required, says Mr Wind. But together he believes that Biknben and GiroBank will provide a strong service

organisation to business customers, and the bank's plan is to build up its business customer portfolio in competition with its two big rivals. BG Bank was established with effect from October 1, but its 1995 accounts cover the group for the wbole year. The bank reported a net profit of DKr1.68bn compared with 3 1994 (pro forma) losa of valuation item gave a loss of

DKr1.7bn in 1994 and a gain of DKr884m in 1995, a total swing of DKr2.6bn. Loss provisions were reduced from DKr1.06bn to DKr738m, and expenses were reduced from DKr4.47bn to DKr4.22bn.

Net profit as a return on equity capital was 29.1 per cent, but it is a level which reflecta the portfolio value adjustment and is not indicative of returns to come. Nevertheless, it was a good start for the third force.





Unibank



Unibank

The Mortgage Bank of De Bond issue

1996 - 2003 DKK 400,000,000 Lead Manager

Unibank



HAFSLUND NYCOMED

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2,658,273 "A" shares and 1,322,568 "B" shares

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Unibank

City of Copenhagen

1995 - 2000

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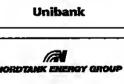
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Placement of "B" shares

DKK 119,000,000

Financial Advised

Initial Public Offering DKK 302,750,000 Joint Lead Manage Unibank

These are among the transactions managed by Unibank - the only Nordic bank on the 1995 IFR league table of European bookrunners.

Nordic investment banking.



Mortgage and treasury bonds

Bringing in the investor

Measured by bonds in circulation, the Danish mortgage bond market is almost twice as big as the treasury bond market, but turnover in trade with the rest of the world is dominated by treasury instruments. Trade with nonsidents in government bonds is about DKr1,000bn a year, while trade in mortgage bonds

is well under DKr100m a year. Mortgage bonds carry a risk premium and yields which are abont a percentage point higher than yields on government issue, though in the more than 200 years of the Danish mortgage bond market there has never been a default. The drawback, explains Mr

Jan Cour competitors by

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Topenhagen James

gage credit companies, is the structure of the mortgage bonds. They are annuities and they are callabla. Investors abroad, who are unused to sizeable markets in mortgage bonds, want lnatruments which have the same characteristics as treasury bonds: non-callable bullets.

The Danish finance industry is trying to stimulate foreign interest in mortgage bonds by introducing new instruments, which are more to the liking of the international investing public Last year Unidanmark introduced a collateralised mortgage bond (CMB) series. The bonds are based on tradiable element in them. Realkredit Danmark bas

developed a new instrument which, it claims, is a 10-year bullet pure and simple with no callable element. It will be introduced this autumn. RD has taken the unusual step for a European finance company of applying for a patent on the analytical and numerical basis of the new product.

In every respect except the

mortgage basis, the bonds will be identical in structure with RD's naw bullet makes a complete separation between the loans to the householder,

or other mortgagee, and the bond sold to the investor. The loan to the mortgagee, named RD Flexioan, is designed as a supplement to a mortgage Lars Rohde, co-general man-ager of Realkredit Danmark, financed in tha normal way through traditional bonds. The

one of the two biggest mort. There is, however, still a call- Flexioan can be taken for 10, 20 or 30 years, but part of it will be refinanced, either continu-

ally or at five-year intervals. quarterly or monthly repay-ment schedule. RD will issue bullets with maturities of one to 10 years, a single series for each year. Interest will be paid once a vear.

the kingdom's bullet loans. ments schedule will typically mean, says Mr Rohde, that householders will pay a rate of interest on the loan that is a percentage point lower than on traditional mortgage loans. That should bring them in.

Stock Exchange reform

urviving in the free world

With its monopoly status removed, the exchange must offer competitive services

The legal monopoly which protected the Copenhagen Stock Exchange was ended on January 1 this year, and on May 1 the CSE will start life as a private company.

With its monopoly status removed, the CSE will have to survive on its ability to offer competitive services, "and we shall survive; there's no doubt about that," says Mr Hans Ejvind Hansen, chairman of the new CSE, who has a long career in some of the most senior jobs in the finance ser-

vices industry. The reform of the CSE is a consequence of the EU's Investment Services Directive, which Denmark has been one of the first countries to implement fully through changes in domestic legislation. The privatised CSE will be owned by traders, with 60 per cent of the capital. Issuers and investor representatives will he the other shareholders.

The Danish Securities Centre, which bas provided a paperless, electronic clearing and settlements system for bonds since 1992 (and for sbares since 1986), may also be privatised, hut a decision has not been taken yet. In principle, hoth institutions could face competition from new exchanges, though no domestic challengers bave flagged any such

intentions to date. One result of the changes is that foreign securities houses can become remote members of the CSE, a development welcomed by the Danes, "In Denmark, we have no hesitation

bership," says Mr Hansen. "We want remote members. It will help to strengthen trade in the most ilquid securities, shares as well as bonds. We shall actively seek to attract remote

The CSE - and any competing market places which are established - will be under the supervisory control of a new Securities Board, chaired by Mr Erik Hoffmeyer, governor of the central bank from 1965 to 1995. The board's secretariat will be provided by the Finance Industry Supervisory Authority.

The outlook for the Danish market varies in some degree with the type of securities. Denmark has a very big bond market, hy far the largest of any country if measured on a per capita hasis, which is usually ranked at ninth in the world hy turnover. This reflects the 200-year-old Danish system of mortgage credit, hy which property purchases have heen (and still are) financed almost exclusively by bonds issued by mortgage credit institutions.

The market in government debt is relatively new. It developed in the 1970s when the first and second oil price shocks sent the state hudget heavily into deficit. "For the large, liquid benchmark bonds. whether mortgage credit or treasury issue, we shall face competition from exchanges as well as from proprietary trading systems, and this will probably also be the case for the 10 most liquid equities," says Mr

"To stay competitive, we shall have to ensure that we can compete through the efficiency of the system, through transparency and price," he says. The challenge will be

especially tough if and when Emu Phase 3, with a common

currency, is implemented. Denmark has an opt-out from Phase 3 under the terms on which it ratified the Maastricht treaty, but it is widely expected that the state will nevertheless issue Eurobonds. As there will be little difference between these and other Euro treasury bonds, there will be no special incentive for trade them via the CSE.

Mr Hansen argues that it is important to keep as much trade in Copenhagen as possi-

Capital gains tax on listed shares has virtually killed the market for individual investment in equities

ble, on the principle that "the elite generates breadth". At the other end of the scale, there are 1,200 bonds series which are not liquid and in which, in some cases, trades may not take place for days or even weeks. Most of the 250 shares listed in Copenhagen

are also weak on liquidity. For these securities, the existence of a Danish market place is essential, and here Mr Hansen sees the job of the new CSE as being to improve liquidity and trading opportu-

There are several stumbling blocks, reflecting both institutional and taxation problems. At the top of the market's hit list is a 0.5 per cent turnover

Due Diligence

Successful investment banking requires an organisa-

tion committed to providing a consistent and professional

standard of banking service. As a major Nordic banking group,

Den Danske Bank has considerable placing power and holds a

leading position in the Nordic equity and fixed-income capital

track record of close collaboration with clients to implement

their business strategies - analysing alternative procedures and

their implications, preparing valuations, arranging public offerings

and private placements and assisting in mergers and acquisitions

industry - probity, due diligence, professionalism and flexibility

- and, during a highly sensitive process, confidentiality has top

in the Nordic region, Den Danske Bank can provide a substantial

level of support and the services of an experienced, well-estab-

priority at all times in order to maintain market confidence.

The bank upholds the traditional values of the banking

Through its position as one of the leading investment banks

DEN DANSKE BANK

The Investment Banking division of Den Danske Bank has a

tax on all equity sales carried out by Danish investors. "This is a major handicap to our development. If investors and traders can buy through exchanges where there is no tax, they have an easy choice to make," says Mr Hansen. "It is horrible that we should have

to live with such a negative Mr Carsten Koch, the Social Democratic party's minister for taxation, told a meeting of the Association of Danish Shareholders this month that he did not completely rule out the suspension of this tax, but he did not make any promises.

There are other taxes which hinder the development of the market of which the tax on capital gains when listed shares are sold, is one. Until 1993, there was no capital gains tax on shares held for over three years. Now, capital gains are taxed fully at income tax rates unless the total value of the shares held by a single person or a married couple ls under DKr106,000. There is no deduction for losses on other shares in the portfolio.

This tax has virtually killed the market for individual investment in equities, and Mr Koch has no intention of changing it. However, the situation can be exaggerated. investments made in equities through pension savings accounts, whether individual accounts administered by the banks or collectively through pension funds and life assurance companies, are not subject to the gains tax, and neither are they subject to another one of Denmark's killer taxes - the tax on real

interest yields. The latter tax, introduced in 1983, places a ceiling of 3 per cent on the after-inflation real

other institutions may earn on securities investments: any vield in excess of a real 3 Det cent goes to the exchequer.

As the equity investments in pension savings accounts are exempted, they are favoured. Other problems hindering

the development of a more lively equities market are the fact there are very few large companies, hy international standards, listed on the CSE; that many of these companies are controlled by foundations bolding stock with preferential voting rights, which means among other things that the companies are not exposed to hostile takeover blds; and that the market is dominated by institutional investors, which invest for the long haul and put the share trade indicator

permanently on "hold". The tax regime is partly responsible for the serious problems of the Copenhagen derivatives market, according to Mr Tyge Vorstrup Ras-mussen, president of the Futop Clearing Centre. Turnover in the market was so low in 1995 that its commercial justification was in doubt. Turnover has improved this year, but not

yet to a satisfactory level. The turnover tax is one problem, but so is the way the real interest tax is administered. It applies to yields on derivatives, a factor in keeping the Danish institutions out of the market. Other factors are the conservatism of the institutions, which was not helped by the Barings collapse.

In the meantime, Mr Rasmussen plans to involve the domestic institutions to generate a larger market. "We need them to get liquidity, and need more liquidity to make tha market attractive to foreigners," he says.



■ The big insurers

Measure of independence

The two main companies differ, but they have important things in

common When Codan, the insurance company controlled by the UK's Sun Alliance, acquired Hafnia, then the country's second largest insurer, in 1993, it took on board a company

which was twice its own size.
"It was a hig monthful," says Mr Peter Zobel, the chief executive, whose family founded the company. He is the third generation to be in control.

For a year or so, Codan was the country's biggest accident insurance company, but it was knocked from that perch last year when Tryg acquired most of the assets of Baltica (changing lts name to Tryg-Baltica) from Den Danske Bank, Tryg-Baltica's accident insurance premium income last year was DKr5.05bn, compared with Codan's DKr3.7bn; total group premlnm lncome was DKr8.1bn in Tryg to DKr6.4bn at Codan.

The rivals have two things in common, First, the present structure of both is the result of the collapse of the country's two biggest insurers in 1991-93, Baltica and Hafnia (in each case, the collapse was caused by speculative ventures by the respective holding com-

Secondly, the two have so ances with banks, although Codan has its own banking snbsidiary. In Codan's case, says Mr Zobel, "we have not received any proposals, and we are perhaps not a suitable partner because of our foreign

ownership". Instead, however, Codan is putting the finishing touches to an agreement with Fokus. Norway's fourth-ranking bank, to sell Codan accident and life policies through the Fokus branch network in Norway. "If this is a success, we shall consider similar arrange-

ments in the other Scandina-

vian countries," says

Zobel Before taking over Hafnia, Codan was the smaller partner, but consistently the most profitable of the larger Danish insurers. This record did not survive the acquisition: between 1992 and 1993. Codan's combined ratio in the Danish accident insurance company (costs plus indemnities) soared from 105 to 132. The past three years have be devoted to sanitising the Hafnia portfolio, "a long slow pro-

beginning to show results. The combined ratio was down to 114 in 1995 and the direct returns on insurance business (the insurance technical result) as a percentage of premium income was reduced from a negative 20 per cent in 1993 to a still negative 6 per cent last year. "We have got

They have remained aloof from alliances with banks

although the result is still not satisfactory," says Mr Zobel. He aims to reduce the combined ratio to 102, which means that both costs and indemnities have to come down considerably from their present levels.

Mr Zobel is sanguine about Codan's future as a company ance with a large bank. "It's a challenge," he says, but he does not believe that the advantages are all on the side of the insurance companies which do have alliances.

Curiously enough, Danica, with the support of its owner. Den Danske Bank, has adopted a husiness strategy which sug gests that it may agree with Mr Zobel, though it perplexes some of Danske's competitors. Baltica landed in Danske's lap in 1992-93, when Danske was the only financial services company with the strength to

and pension business. Last year Danske sold off the bulk of Baltica's accident business to Tryg, leaving Danica with the accident business of Danica's life and pension customers. Danica and Danske have agreed, bowever, that Danica should function tudependently of the bank.

Danica does not market lts policies through Danske's branches, with the exception of company pension policies. "We are in competition with cess," says Mr Zobel, but it is Danske's own insurance subsidiaries, Danske Phoenix, and Danske Life, and our own bank, Danica Bank, is a fullservice bank in competition with Danske," says Mr Erik Bonnerup, Danica's chief execntive.

of number

on Haly

"We have our own sales and our own products. We are quite independent and we think that it is best if we each sell through our own channels. As a group, this means we do business through two independent channels and in the end we think this will be to our advantage," says Mr Bonnerup.

Codan's position is, of course, different, but Mr Zobel thinks the banks' advantage as a sales canal will decline because the advance of electronic banking will gradually reduce the number of branches and weaken the importance of face-to-face contacts. He thinks that customers will think twice about putting all their eggs in one basket. They need realise that it is best to have your insurance with an insurance company and your over draft with a bank, and not get the two mixed up".

But the development of universal banks makes it all the more important for independent groups such as Codan to develop their own distribution channels and customer services, he emphasises. Direct marketing by tele-marketing, television advertising, and a 24-hour telephone service for accident insurance customers are areas in which Codan is making its main efforts.

■ Mortgage credit institutions

ling the mystery

prevent Baltica from going

Though they have taken market share from the banks, the latter have now struck back

The Danish bond-issuing mortgage credit institutions have always been something of a mystery to the outside world. They are owned by their customers, the borrowers, as a kind of mutual fund, and the bonds they issue are not like any that international investors are used to dealing

Even the international rating. agencies were so perplexed that they did not know how to rate the Danish mortgage institutions, though they are among the higgest mortgage issuing businesses in Europe. The groups are still owned by the borrowers, but the operational parts of the groups have been incorporated as joint stock companies. They are now rated for short-term credit

Soon, probably this year, they are hoping that they will receive ratings for long-term debt. which should make their bonds more attractive to inter-national investors. Over the past few years the mortgage credit institutions hava taken a significant market share from the banks, with the two biggest banks striking back by setting up their own mortgage credit subsidiarles.

Changes in legislation are the background to this development. Until the beginning of the 1990s, the mortgage credit Big Three Mortgage Credit compa Nykredit. (figures in DKr bn) Danmark Profit from financial operation 1.23 0.42 0.16 2.45 Net profit .2.15 1.96 0.65 133 of which, mortgage los

institutions could provide only earmarked loans - to finance the purchase of a property or an improvement to a property. Today, loans can be issued without regard to the purpose

for which the money is to be used, although the loans must be safely secured in the property. The consequence of the change was that householders in large numbers bave con-verted bank debt into mortgage credit debt, which is considerably cheaper. The result shows up in cen-

tral hank credit statistics. From the end of 1992 to the end of 1995, bank advances fell by about DKr60bn to DKr490bn. Mortgage credit lending increased by DKr75hn to DKr784hn

Meanwhile, the two big mortage institutions, Nykredit and Realkredit Danmark, are adopting completely different strategies in the new, freer world in which they find themselves. Nykredit is at the centre of a web of alliances with BG Bank and two other regional banks and with Topdanmark, the insurance com-

RD has no plans for similar

Rohde, co-general manager. I has chosen to remain a special ist institution, doing what it knows best. "It is an interesting situation, in which on the one hand you have the universal banks offering every kind of service and on the other the specialist institutions, but we think the specialists will live on as long as they do what they do with sufficient talent." be says.

RD does not ahun co-operation with banks. Indeed, that has been the traditional way in which private customers have made contact with the mortgage credit institutions, but it will be on a non-exclusive and ordinary commercial basis, says Mr Rohde.

In addition to its banking and insurance link-ups, Nykredit also has close co-operation with real estate agents through franchise arrangements with three real estate agency groups with a total of 250 outlets. This is another area in which RD has a different approach, counting on the quality and price of its products and customer service to bring in busi-

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